ARKANSAS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
Fiscal Year Ended June 30, 2002

STATE OF ARKANSAS

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2002

(With Independent Auditors' Report Thereon)

Governor Mike Huckabee

STATE OF ARKANSAS
OFFICE OF THE GOVERNOR

Mike Huckabee
Governor

June 9, 2003

To the people of Arkansas and the honorable members of the Arkansas Legislature:

I submit to you the Arkansas Comprehensive Annual Financial Report (CAFR). We require timely, accurate financial reporting to ensure proper handling of the taxpayer's money. This publication is an important part of our efforts. It provides a complete picture of the state's financial status and is an excellent means of meeting our continuing disclosure responsibilities to the national credit markets.

This CAFR is the first year's report under new accounting standards, audited by a new audit firm and recorded on the State's new financial system. The challenges of this transition have been met and the enhancements made to the reporting structure will benefit the State for years to come.

I want to express my sincere thanks to the dedicated workers at the state Department of Finance and Administration and the other state agencies who helped bring this Comprehensive Annual Financial Report to you.

Sincerely yours,

Mike Huckabee

State Capitol Building, Suite 250 * Little Rock, AR 72201 * mike.huckabee@state.ar.us
501-682-2345 * Fax 501-682-1382 * TDD 501-682-7515

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS

ACKNOWLEDGEMENTS

Report prepared by the Department of Finance and Administration Office of Accounting:

Richard Weiss
Director

Tim Leathers
Deputy Director/Commissioner of Revenue

Tom Smith
Administrator of Office of Accounting

Financial Reporting Staff:
Paul Louthian, CPA – Assistant Administrator of Office of Accounting
George Lepper, CPA
Connie Honeycutt, CPA
Andrew Griffith, CPA
Joe Norton

Special appreciation is given to staff members at the Arkansas Department of Parks and Tourism, who assisted in the design of the cover and divider pages and to all personnel throughout the State, whose extra effort to contribute accurate, timely financial data for their agencies, made this report possible.

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS

STATE OF ARKANSAS

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2002

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ARKANSAS

INTRODUCTORY SECTION

GREAT SEAL OF THE STATE OF ARKANSAS

STATE OF ARKANSAS
Department of Finance and Administration

OFFICE OF THE DIRECTOR
1509 West Seventh Street, Suite 401
Post Office Box 3278
Little Rock, Arkansas 72203-3278
Phone: (501) 682-2242
Fax: (501) 682-1029
http://www.state.ar.us/dfa

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February 21, 2003

The Honorable Mike Huckabee, Governor
The Honorable Members of the Arkansas General Assembly
The Citizens of Arkansas

It is my pleasure to transmit to you the Comprehensive Annual Financial Report of the State of Arkansas (the State) for the fiscal year ended June 30, 2002. The report has been prepared by the Department of Finance and Administration. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the Department of Finance and Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The report is presented in three sections. The introductory section includes this transmittal letter with narrative commentary on matters of interest to the reader, the GFOA Certificate of Achievement for Excellence in Financial Reporting (2001), the State's organizational chart and a listing of principal officials; the financial section includes the independent auditors' report, management's discussion and analysis, basic financial statements, notes to the financial statements, required supplementary information, such as information regarding pension trust funds and budget vs. actual information for the general fund, and combining financial statements; and the statistical section includes selected financial, economic, and demographic data for the State on a multi-year basis.

All agencies, accounts, departments, boards and commissions that represent the State's reporting entity are included in this report. The criteria used in determining the State's reporting entity are fully discussed in Note 1. The State provides a full range of services including: education, health and human services, transportation, law, justice and public safety, recreation and resources development, general government, and labor, commerce and regulatory.

ECONOMIC CONDITION AND OUTLOOK

Real Output. In FY 2002, real output (1996$) of final goods and services was $66,641 million, an increase of 1.0 percent or $691 million over FY 2001.

In FY 2003, real output (1996$) of final goods and services is estimated at $66,570 million, a decrease of 0.2 percent or $71 million over FY 2002.

State Personal Income. Personal income consists of wages and salaries, dividends, interest, rent and transfer payments such as social security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets.

Personal income is measured in current dollars and reached a total of $62,552 million in FY 2002. This represented an increase of $1,940 million or 3.1 percent over FY 2001.

FY 2003, is estimated at $64,234 million, an increase of $1,682 million or 2.6 percent over FY 2002.

Employment. In FY 2002, non-agricultural payroll employment declined 6,300 jobs or .05 percent versus FY 2001.

In FY 2003, non-agricultural payroll employment is estimated at 1,149,900, a decline of 3,100 jobs or 0.4% compared to FY 2002.

FY 2002 Net Available General Revenues. Actual net available general revenues distributed totaled $3,182.4 million. This amount is $77 million or 2.4 percent below the net available distribution of FY 2001.

FY 2003 net available general revenues are now estimated at $3,255.2 million. This revised estimate is $62.8 million or 1.88% below the initial fiscal year 2003 forecast. However, the revised estimate is $72.8 million or 2.3 percent above the net available distribution of FY 2002.

The new economic forecasts for Arkansas and the nation were released on Tuesday, March 11, 2003, by Global Insight, Inc. and the Institute for Economic Advancement at the University at Little Rock, that indicate the outlook for the state slightly improved since the October release.

The Governor's Council of Economic Advisors also reviewed the forecasts of 3.7% growth for FY 2004 and 3.8% growth for FY 2005 and found that they were conservative and consistent with the most recent economic forecast revisions. These projected revenue growth rates are lower than rates historically associated with this level of economic growth. These forecasts modeled expected changed in economic structure and behavior for the nation and the state. However, the Council also recognized that the uncertainty of current events, such as war, could lead to an economic shock that could not be predicted.

MAJOR INITIATIVES

Highways and Transportation

From one side of the state to the other, Arkansas has seen great activity levels and improvements as the Arkansas Highway and Transportation Department (AHTD) progresses through the third of its 5-year Interstate Rehabilitation Program (IRP). Estimated to bring over 300 of the state's 655-mile Interstate highway system up from poor to above-standard conditions, forty-three IRP projects have gone to contract. Twenty-two jobs totaling approximately 150 miles were under active construction at the beginning of 2003, and 21 jobs were complete totaling approximately 150 miles. Completed projects include 40 miles on I-30, 94 miles on I-40 and 16 miles on I-55 rehabilitated with asphalt overlay or concrete reconstruction.

Other significant milestones include continuing the 4-laning and relocation of Highway 67 north from Newport to Walnut Ridge/Hoxie and the completion of the third and final section of the Walnut Ridge/Hoxie Bypass in northeastern Arkansas. Officials broke ground on the construction of a new Greenville bridge with the Mississippi Department of Transportation (DOT) and made significant advancements toward the future Great River Bridge between Benoit, Mississippi and McGehee to serve the southeast corner of the state. To the southwest, construction of the Ashdown Bypass began and major work is currently underway to relocate Highway 71 from the Louisiana state line to Texarkana. A route was approved by the Federal Highway Administration on the continuation of this project northward from Texarkana to DeQueen. The northwest area of the state saw the

completion of 4-lane widening of Highway 412 at Springdale across Beaver Lake and development toward a Bella Vista bypass as the AHTD and Missouri DOT continue planning an Interstate-type highway toward Pineville, Missouri. Upcoming 6-lane Interstates in central Arkansas brought about the successful conversion of I-30 frontage roads to one-way operation from Little Rock to Benton and the new North Belt Highway 440 opened in North Little Rock to provide a much anticipated traffic alternate from I-40 to Highway 67/167 in Jacksonville.

Arkansas has begun an era where financing options such as bond issues and toll roads are becoming a more viable alternative to build needed infrastructure rather than relying on traditional methods such as fuel taxes. This trend is partly due to three successful issues of Grant Anticipation Revenue (GARVEE) bonds to finance the massive IRP. With strong community support for new Interstate projects such as I-49 through the western part of the state, I-69 through the southeast and completion of the North Belt in central Arkansas, alternative financing has become a more frequent discussion as the state's highway needs continue to exceed currently available funds.

Arkansas Web Site (www.accessarkansas.org)

In Brown University's third annual survey of state eGovernment performance, the State of Arkansas' official Web site (www.accessarkansas.org), ranked first in the nation for delivering online services to constituents. Researchers at the Taubman Center for Public Policy at Brown University tracked Arkansas' rise from 11th place for eGovernment services in 2001 to the top spot in 2002. Launched in 1997, the official Web site for Arkansas was built and managed by the Information Network of Arkansas.

1,265 state and federal Web sites were evaluated for the presence of several features, including the office phone numbers, office addresses, online publications and databases, external links to other sites, foreign language translation, accessibility, privacy policies, security measures, credit card payment functionality, search capabilities, and the availability of online services. Arkansas, offering more than 180 online services, was ranked best in the nation for online government services.

Education

The Arkansas General Assembly meeting in 2001, created the Arkansas Blue Ribbon Commission on Public Education and the State Board Advisory Committee. The Blue Ribbon Commission was to define an equitable and adequate system of free public education in the state as mandated under the "general, suitable and efficient" components of the Arkansas Constitution. The State Board Advisory Committee was to conduct a study of public education, its structure, financial needs, and funds needed for improvement. Legislation was also passed to establish ethical guidelines to prohibit self-dealing in transactions between public educational entities and board members, administrators, or employees. The General Assembly also passed the Educator Compensation Act to provide a $3,000 pay increase for the state's teachers. Due to revenue cuts in FY02 and FY03 the required increase was reduced to $525. However, many school districts chose to honor the commitment.

On November 21, 2002, the Arkansas Supreme Court affirmed a lower court ruling that the current Arkansas school-funding system is unconstitutional. The Court concluded that, "the State has not fulfilled constitutional duty to provide the children of this state with a general, suitable, and efficient school-funding system." Since that time the Department of Education has worked to design a delivery system that would meet the court mandate.

During this same period the Department of Education continued with education reform efforts through programs such as Smart Start, Smart Step, the Arkansas Comprehensive Testing, Assessment, and Accountability Program (ACTAAP), as well as a statewide mentoring support system for first year teachers.

Secondary vocational education is available to every public school student in the State, either at the high school or a secondary area vocational center that serves students from surrounding school districts. Career Orientation, which introduces students to different careers and to workplace expectations, is required of every student at the junior high school level as a prerequisite for all programs of study/career majors developed by the Department of Workforce Education.

Arkansas is restructuring high school vocational education to help students make a smoother transition from school to postsecondary education and/or the workplace. Career Opportunities, High Schools that Work, and Youth Apprenticeship are part of this systemic change that provides students with academically challenging courses. Proposals passed during the 82nd General Assembly will have long lasting effects for higher education. Arkansas Code 82-1001 raises the family income limit on the Academic Challenge Scholarship Program. This will allow more students to attend college and will encourage Arkansans to attend college in state. Arkansas Code 6-51-9 requires the Workforce Education and Career Opportunities Board to develop a performance-based accountability system for post-secondary and technical institutions. Arkansas Code 50-201 establishes the Arkansas Technical Careers Loan Forgiveness Program to assist students who will fill special needs areas in the technical skill fields.

Economic Development

More Americans called Arkansas home in 2002, according to Allied Van Lines' 35th Annual Magnet States Report. Attracting the country's largest percentage of incoming moves, Arkansas advanced from the No. 7 magnet state position in 2001 to this year's No. 1 position. Allied Van Lines, "the world's largest mover of families," defines a "magnet" state as having a minimum of 55 percent of its total interstate relocations moving into the state. Arkansas' percentage of inbound moves performed by Allied Van Lines was 71.2 percent, just ahead of last year's winner Vermont with 68.7 percent.

The Annual Allied Van Lines Magnet States Report reveals that employment opportunities and a lower cost of living are drawing Americans to certain areas. Since Sept. 11, 2001, Arkansas has seen a decrease in its unemployment rate from 5.2 percent to 5.1 percent, while the national unemployment rate has increased from 5.0 percent to 6.0 percent.

Expansion Management magazine's "America's 50 Hottest Cities" list compiled from a survey of more than 75 site consultants in November 2002, ranked Jonesboro, Arkansas, No. 23. Also making the list were Fayetteville-Springdale-Rogers at No. 38 and Little Rock-North Little Rock at No. 45. Only four states had more areas making the list.

The magazine provided the site consultants with a complete listing of the country's 331 metro areas and asked them to rank the areas according to such criteria as business environment, workforce quality, operating costs, incentive programs, worker training programs and ease of working with local officials.

The U.S. Small Business Administration (SBA) announced that SBA loans in Arkansas increased 38.3% over fiscal year 2001, nearly double the 20.8% increase in SBA loans nationwide. The large increase in SBA loan activity was attributed to several factors, including a growing reliance on SBA guaranties by banks seeking to create and retain jobs in their communities by making more small business loans, and efforts by his staff to streamline the SBA loan process to provide the best possible service both to borrowers and to the banks that make SBA loans. SBA approved 305 Arkansas small business loans in excess of $102 million in fiscal year 2002.

Health and Human Services

Initiated Act No. 1 of 2000, the Tobacco Settlement Proceeds Act, was passed by popular vote on November 7, 2000. This act provided the framework for the Arkansas Development Finance Authority (ADFA) to issue approximately $60 million in tax-exempt tobacco settlement revenue bonds.

The Arkansas Biosciences Institute (ABI) will receive $25 million for an approximately 85,000 square foot building to house the University of Arkansas for Medical Sciences Biosciences Institute (Little Rock campus), and $20 million for an approximately 70,000 square foot building for the Arkansas State University's Biosciences Institute (Jonesboro campus).

The ABI will initiate and support focused programs in the areas of agricultural research with medical implications, bioengineering, tobacco-related research, nutritional and other research focused on cancer prevention or treatment, and other research approved by the Institute Board. The Institute's mission will be accomplished through research and educational activities among scientists at the University of Arkansas, Division of Agriculture; the University of Arkansas for Medical Sciences; University of Arkansas, Fayetteville; Arkansas Children's Hospital; and Arkansas State University.

The College of Public Health (COPH) will receive $15 million to build a 60,000 square foot facility on the UAMS campus in Little Rock. The mission of the college is to improve health and promote the well-being of individuals, families and communities in Arkansas through education, research and service. Community-based programs and approaches will be the College's foremost tool in securing its long-term vision – optimal health for all. The community-based model operates on the premise that the protection and improvement of the community's health is best achieved through the full participation of the community in the selection, design and implementation of prevention programs. The College of Public Health will work in partnership with the Arkansas Department of Health to develop pilot programs in a rural area and an urban area that will serve as model community-based public health education programs. At these sites COPH students, faculty and staff will participate with local organizations, citizens and public officials in collaborative learning, research and service efforts. The COPH will offer a Masters in Public Health degree program beginning in July 2002 and certificate programs in January 2002.

FINANCIAL MANAGEMENT

As explained in greater depth in the Management's Discussion and Analysis (MD&A), the Governmental Accounting Standards Board (GASB), issued new financial reporting guidelines, GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, that were implemented for the fiscal year ending June 30, 2002. Basic financial statements and required supplementary information (RSI), for the State consists of the following presentations.

MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities. The MD&A should be an objective and easily readable analysis of the State's financial activities based on currently known facts, decisions, or conditions. It should provide an analysis of the State's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities.

Basic financial statements include: Government-wide financial statements, Fund financial statements and Notes to the financial statements.

Government-wide financial statements consist of a statement of net assets and a statement of activities. The statements, as explained in the Notes to the financial statements, are prepared using the economic resources measurement focus and the accrual basis of accounting. Included are all assets, liabilities, revenues, expenses, and gains and losses of the State. A distinction is made between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units. An important change is the requirement to compute depreciation expense for the capitalized assets of the State.

Fund financial statements consist of information about the government's major governmental and enterprise funds, including blended component units. The three fund types are Governmental, Proprietary, and Fiduciary. Governmental funds are the traditional reporting funds such as general, special revenue, capital projects, debt service, and permanent funds. The State of Arkansas presents these governmental funds as the general fund. Proprietary funds include enterprise funds and fiduciary funds primarily consist of the State's pension trust funds.

Notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Required supplementary information (RSI), are budget comparison schedules as well as various pension trend data required by previous GASB pronouncements.

Internal Controls

The management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and that adequate accounting data is compiled to allow the preparation of the financial statements in conformity with GAAP. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements, and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

Budgetary control is maintained through legislative appropriation. Agencies submit budgetary requests to the Department of Finance and Administration. The Department of Finance and Administration compiles the executive budget on behalf of the Governor who submits it to the Legislature. The Department of Finance and Administration maintains control over the spending patterns of the State after the approval of the budget through control at the line-item level. See Note to RSI (Budgetary Basis Reporting – Budgetary Process) for further discussion of budgetary controls.

Debt Administration

The Constitution of the State of Arkansas does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or special election held for that purpose. The total outstanding general obligation bonded indebtedness, including special obligation and other debt instruments, of the governmental fund types of the State as of June 30, 2002, was approximately $713 million. Arkansas currently has a rating of Aa2 from Moody's Investors Service and a rating of AA from Standard and Poors for General Obligation Bonds.

Cash Management

State funds are invested by the Treasurer and also by various state agencies, including the retirement systems and institutions of higher education. Permissible investments include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government Obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Risk Management

The State manages risk with a combination of self-insurance and commercial policies. The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies.

The State also established the State and Public Schools Safety and Health Insurance Board (the Board) by Arkansas Code 21-5-40 and allowed the Board to pursue self-funding activities. The Board provides comprehensive major medical care, prescription drug and life insurance for employees of the State and its participating component units, as well as their dependents, through the establishment of a variety of self-insured plans. The Board also makes medical coverage available to retirees should they elect to continue such coverage at their own expense.

Audit

The firm of KPMG LLP in coordination with the State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2002. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements is included in the financial section of this report.

Awards

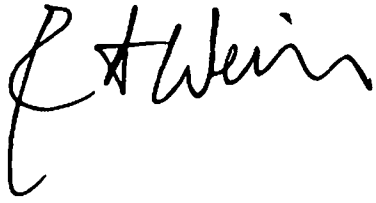
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arkansas for its Comprehensive Annual Financial Reports for the fiscal year ended June 30, 2001. This was the sixth consecutive year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year only.

Acknowledgments

Governor Mike Huckabee's commitment to building a State reporting structure that will produce accurate and timely financial reporting is reflected in this report. Great strides have been made, additional challenges will be met and additional improvements in governmental accountability will be achieved. Additional information provided to market analysts, potential investors, and other users of this financial information will reduce operating costs for the State. Agency directors and the Legislature will have more complete and accurate information to fund and operate agencies than ever before. The Governor's commitment and leadership of this project demonstrates his firm belief in our effort to continuously improve our business processes.

This report would not be possible without the continued support of all state agencies that provide financial data. The future success of this project depends on their continued cooperation and support.

Sincerely,



Richard A. Weiss, Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Arkansas

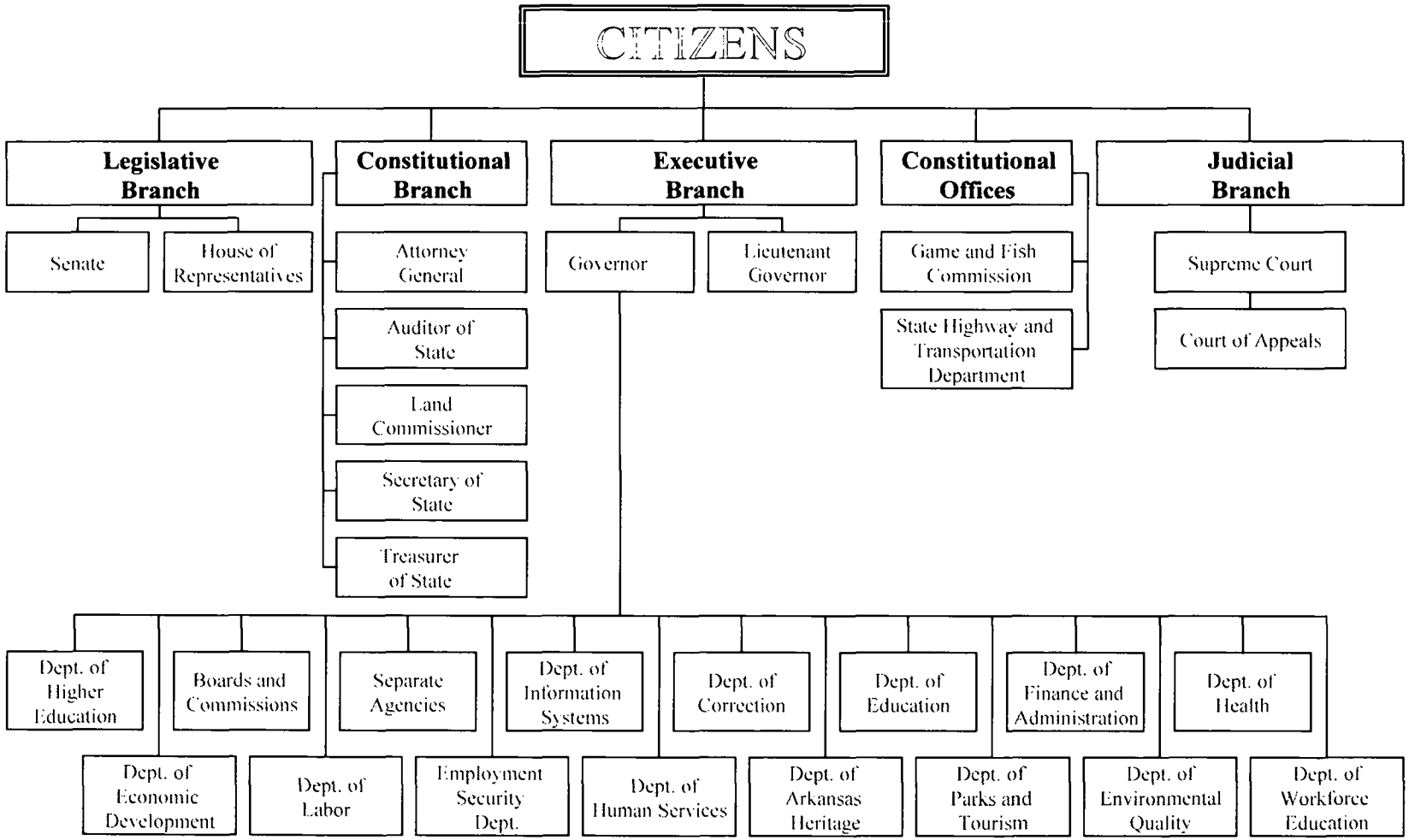
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

ORGANIZATIONAL CHART



State of Arkansas

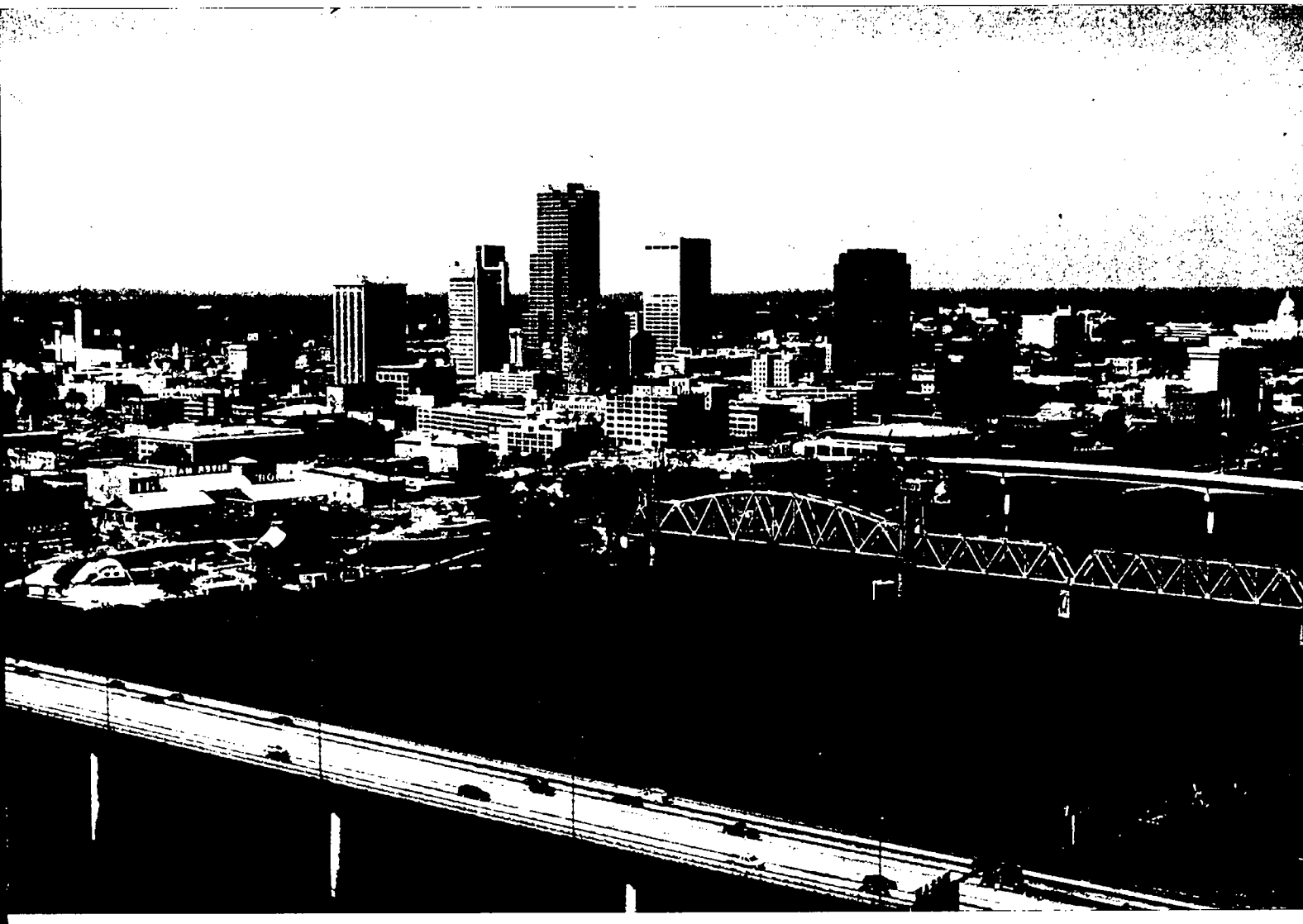
Principal Officials

Elected Officials	Legislative Branch	Supreme Court
Governor Mike Huckabee	President Pro Tempore Jim Hill	Chief Justice W.H. "Dub" Arnold
Lt. Governor Winthrop P. Rockefeller	Speaker of the House Herschel Cleveland	Associate Justice Robert U. Brown
State Treasurer Gus Wingfield		Associate Justice Annabelle Clinton Imber
State Auditor Jim Wood		Associate Justice Jim Hannah
Secretary of State Charlie Daniels		Associate Justice Donald L. Corbin
Attorney General Mike Beebe		Associate Justice Tom Glaze
Land Commissioner Mark Wilcox		Associate Justice Ray Thornton

GREAT SEAL OF THE STATE OF ARKANSAS

ARKANSAS

FINANCIAL SECTION



GREAT SEAL OF THE STATE OF ARKANSAS

KPMG

717 North Harwood Street
Suite 3100
Dallas, TX 75201-6585

Independent Auditors' Report

The Honorable Mike Huckabee, Governor
State of Arkansas

We were engaged to audit the accompanying financial statements of the governmental activities and the general fund and we have audited the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, the Higher Education and Workers' Compensation Commission major enterprise funds, and the aggregate remaining fund information of the State of Arkansas, as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Arkansas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. In addition, we did not audit the Higher Education Fund, which represents 79% and 80% of the assets and revenues of the business-type activity opinion unit, respectively, and 100% of the assets and revenues of the Higher Education major enterprise fund opinion unit. Additionally, we did not audit the War Memorial Stadium Commission Fund, Construction Assistance Revolving Loan Fund, or the other Revolving Loan Fund (non-major enterprise funds), which on a combined basis, represent .02% of the assets of the aggregate remaining fund information opinion unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aggregate discretely presented component units, the Higher Education Fund, and the other non-major enterprise funds described above, are based on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The State implemented a new statewide financial management system during fiscal year 2002. The new system was predominately implemented by agencies included in the governmental activities and general fund. All internal controls necessary to ensure the proper accounting and reporting of the State's financial results including: (1) providing adequate training/supervision, (2) establishing appropriate system security controls, system interfaces, and configuration settings, (3) enforcing accountability and coordination/communication among key agencies, (4) determining significant accruals and ensuring that all revenue/expenditures are properly recorded, (5) determining proper amounts/classifications for restricted

KPMG, LLP. KPMG, LLP a U.S. limited liability partnership, is a member of KPMG International, a Swiss association

net asset categories, and (6) establishing adequate safeguards over significant assets were not in place and operating effectively during fiscal year 2002. As a result, reconstruction of certain records subsequent to June 30, 2002 and substantial adjustments to the financial statements were required. In addition, there is a lack of sufficient and qualified accounting personnel at all critical levels of the organization and adequate evidential matter in support of recorded transactions was not available in all cases. Additionally, management was unable to furnish us with knowledgeable representation of facts and circumstances regarding certain transactions and financial activities occurring during fiscal 2002. Although we extended our audit procedures, it was impracticable to extend our procedures sufficiently to determine the extent to which the financial statements of the governmental activities and the general fund as of and for the year ended June 30, 2002 may have been affected by these conditions.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying financial statements of the governmental activities and general fund as of and for the year ended June 30, 2002.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, the Higher Education and Workers' Compensation Commission major enterprise funds, and the aggregate remaining fund information of the State of Arkansas, as of June 30, 2002, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1(d) to the basic financial statements, in fiscal year 2002, the State adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments,* GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues, an Amendment of GASB Statement No. 33,* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* GASB Statement No. 38, *Certain Financial Statement Note Disclosures,* and GASB Interpretation 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2003 on our consideration of the State of Arkansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report describes the conditions cited above in greater detail and is an integral part of an audit performed in accordance with *Government Audit Standards*, and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, budgetary information and schedules of funding progress on pages 4 through 16 and pages 93 through 98 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Arkansas' basic financial statements. The introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

February 14, 2003

GREAT SEAL OF THE STATE OF ARKANSAS

ARKANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

GREAT SEAL OF THE STATE OF ARKANSAS
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Introduction)

Management of the State of Arkansas provides this *Management's Discussion and Analysis* of the State of Arkansas's Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative, overview and analysis of the financial activities of the State of Arkansas is for the fiscal year ended June 30, 2002. Although the State's financial statements received a disclaimer of opinion on the governmental activities and general fund opinion units from its independent auditors (see Independent Auditors' Report for more information), we believe that the State is making great strides to build a reporting structure that will produce more timely and accurate financial statements in the future and that additional improvements in governmental accountability will be achieved. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal that can be found preceding this narrative, and with the State's financial statements that follow this narrative. The first section of Management's Discussion and Analysis is intended to familiarize readers with the accounting terminology and methods relevant to reporting financial information for the State of Arkansas. The second section of the Management's Discussion and Analysis is a summary of financial and statistical information that should be more meaningful because the readers have been exposed to the accounting terminology and methods used by the State of Arkansas.

For the fiscal year ended June 30, 2002, the State of Arkansas implemented new reporting standards requiring significant changes in content and structure of the CAFR. As a result, much of the information is not easily comparable to the CAFR for the fiscal year ended June 30, 2001. However, in future years, comparisons will be presented that are more meaningful in explaining the State's financial position and results of operations.

Financial Highlights

Government Wide Highlights:

Net Assets – Primary Government – Net assets may serve over time as a useful indicator of a government's financial position. The assets of the State of Arkansas exceeded its liabilities for the fiscal year ended June 30, 2002 by $10.4 billion (presented as "total net assets"). The net assets of the State increased $231 million during the year. Net assets of the governmental activities increased by $251 million while those of business type activities decreased by $20 million.

Of the "total net assets," $1.8 billion (18%) is reported as "unrestricted net assets." Unrestricted net assets represent the amount available to meet the State's ongoing obligations to citizens and creditors. An additional portion of the State's net assets, $843 million (8%), represents resources that are subject to external restrictions on how they may be used and are therefore termed "restricted."

The largest portion of the State's net assets, $7.7 billion (74%), reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related outstanding debt used to acquire these assets.

Long term debt payable for bonds, capital lease and notes as of June 30, 2002 was $1.5 billion. Additional debt totaling $423 million was entered into during the year.

Fund Highlights:

As of the close of business on June 30, 2002, the State's general fund reported a fund balance of $1.7 billion. Of this balance, $839 million is reported as reserved and $896 million is unreserved. This $839 million that is reserved is approximately 10% of the total general fund expenditures for the year. The fund balance in the General Fund decreased $90 million during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the detailed financial information contained within the State's CAFR. One section of the CAFR is the State's basic financial statements, which include the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplemental information (schedule of funding progress and budgetary schedules)

The components of the basic financial statements and the supplemental information are described below.

Basic Financial Statements

Government-Wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the State's financial position, which assist in assessing the State's economic condition at the end of the fiscal year. The government-wide financial statements are prepared using the full accrual basis of accounting. This basically means methods used are similar to the methods used by most businesses. All assets, liabilities, revenues and expenses associated with the fiscal year are accounted for even if the cash involved was not received or paid by the end of the fiscal year.

The government-wide financial statements include the following two statements:

- Statement of Net Assets
- Statement of Activities

The statement of net assets presents all of the government's assets and liabilities; the difference between the assets and liabilities is reported as "net assets". Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the overall financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year and a comparison between program revenues and direct expenses for each function of the State.

The statement of net assets and the statement of activities have separate sections for the three different types of state programs or activities:

- Governmental activities
- Business-type activities
- Discretely presented component units

Governmental activities are primarily supported by taxes and intergovernmental revenues, also known as federal grants. Most services normally associated with State government fall into this category and include the following:

- Education (elementary and secondary)
- Health and human services
- Transportation
- Law, justice and public safety
- Recreation and resource development
- General government
- Labor, commerce, and regulatory

Business-type activities are the functions that operate more like those of commercial enterprises. These activities normally intend to recover all or a significant portion of their costs through user fees and charges to external users of goods and services and operate with minimal assistance from the governmental activities of the state. The business-type activities of the State include the following:

- Higher Education
- Workers' Compensation Commission
- Employment Security Department
- War Memorial Stadium Commission
- Construction Assistance Revolving Loan Fund
- Other Revolving Loan Funds

Discretely presented component units are legally separate organizations established for a specific purpose and are managed independently with their powers generally vested in a governing board. Discretely presented component units are financially accountable to the State and include the following:

- Arkansas Student Loan Authority (ASLA)
- Arkansas Development Finance Authority (ADFA)

Complete financial statements of ASLA and ADFA can be obtained from their administrative offices. Addresses and other additional information about the State's component units are presented in the notes to the financial statements.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Arkansas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government and report the State's operations in more detail than the government-wide financial statements. All of the funds of the State can be divided into three categories, which are as follows.

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

Governmental Fund Financial Statements are used to show essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus of the governmental fund financial statements is the short-term information about the State's financial position rather than both, short-term and long-term information that is the focus of the government-wide financial statements. Therefore, the governmental funds financial statements are prepared on the modified accrual basis of accounting as compared to the full accrual basis of accounting used for the government-wide financial statements. The governmental funds financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

The State of Arkansas has one governmental fund, which is the General Fund. Reconciliation is provided that facilitates a comparison of the financial statement for the General Fund with the government-wide financial statement and can be found on the page immediately following the governmental fund financial statement.

Proprietary Funds' Financial Statements are used to show the activities of the State that operate more like those of a commercial business, essentially the same functions reported as business-type activities. Proprietary funds charge fees for services provided to outside customers including local governments and are also known as enterprise funds. Proprietary funds report the same type of information as the government-wide financial statements. However, the proprietary funds financial statements report the net assets and the revenues, expenditures and changes in fund net assets for each proprietary fund rather than report a combined amount of all the proprietary funds as is done for the government-wide financial statements. Proprietary fund financial statements, like the government-wide financial statements, use the full accrual basis of accounting. Therefore, reconciliation is not necessary for the information contained in the government-wide financial statements and the proprietary fund financial statements for the proprietary funds.

The State of Arkansas has six proprietary funds.

- Higher Education Fund
- Workers' Compensation Commission
- Employment Security Department
- War Memorial Stadium Commission
- Construction Assistance Revolving Loan Fund
- Other Revolving Loan Funds (Safe Drinking Water and Community/Technical College Revolving Loan)

Fiduciary Funds' Financial Statements show the activity of the funds used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. Fiduciary funds, like proprietary funds, use the full accrual basis of accounting. The State's fiduciary funds include:

- Pension Trust Funds for the Judicial, Highway, Police, Teacher and Arkansas Public Employees Retirement System
- State Insurance Department and Other Agency Funds

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a schedule of funding progress and a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements referred to earlier in connection with proprietary funds and fiduciary funds are presented following the required supplementary information.

GOVERNMENT WIDE HIGHLIGHTS & ANALYSIS

The following charts present a summary of the government wide financial statements.

State of Arkansas - Primary Government
Net Assets
(expressed in thousands)

	Governmental Activities	Business Type Activities	Total
	2002	2002	2002
Current Assets	2,034,805	1,264,626	3,299,431
Noncurrent Assets	356,196	733,423	1,089,619
Capital Assets	7,551,005	1,493,527	9,044,532
Total Assets	9,942,006	3,491,576	13,433,582
Current Liabilities	650,636	308,744	959,380
Long Term Liabilities	999,752	1,122,961	2,122,713
Total Liabilities	1,650,388	1,431,705	3,082,093
Invested in Capital Assets, Net of Related Debt	6,730,616	1,014,975	7,745,591
Restricted	179,988	663,139	843,127
Unrestricted	1,381,014	381,757	1,762,771
Total Net Assets	8,291,618	2,059,871	10,351,489

The net assets of the governmental activities increased $251 million while the net assets of the business type activities decreased $20 million. The increase in net assets relative to the governmental activities was primarily attributable to increases in tax and other revenue increases that were greater than expense increases during fiscal 2002. The decrease in net assets in the business type activities was primarily the result of an increase in expenses related to the Employment Security Division and lower investment earnings attributable to the Other Revolving Loan program.

The book value of capital assets as of June 30, 2002 was $7.6 billion for governmental activities and $1.5 billion for business type activities.

The State uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to fund these liabilities.

State of Arkansas - Primary Government
Changes in Net Assets
(expressed in thousands)

	Governmental Activities	Business Type Activities	Total
	2002	2002	2002
Program Revenues:			
Charges for services	664,661	1,161,474	1,826,135
Operating grants and contributions	3,437,645	160,833	3,598,478
Capital grants and contributions	6,707	70,832	77,539
General Revenues:			
Personal and corporate	1,678,750		1,678,750
Sales and use	1,780,774		1,780,774
Other taxes	556,739	249,225	805,964
Motor fuel taxes	326,609		326,609
Total Revenues	8,451,885	1,642,364	10,094,249
Program Expenses:			
General government	836,160		836,160
Education-elementary and secondary	2,236,326		2,236,326
Health and human resources	3,304,063		3,304,063
Law, justice and public safety	428,851		428,851
Recreation and resources development	217,854		217,854
Labor, commerce and regulatory	98,680		98,680
Transportation	522,826		522,826
Business-type expenses		2,375,056	2,375,056
Total Expenses	7,644,760	2,375,056	10,019,816
Other			
Unrestricted investment earnings	63,167	39,565	102,732
Miscellaneous Income	55,805	65,672	121,477
Loss on sale of fixed assets	(14,696)	(1,956)	(16,652)
Transfers-internal activities	(609,619)	609,619	
Interest expense	(51,215)		(51,215)
Total Other	(556,558)	712,900	156,342
Increase (decrease) in net assets	250,567	(19,792)	230,775
Net Assets - Beginning	8,041,051	2,079,663	10,120,714
Net Assets - Ending	8,291,618	2,059,871	10,351,489

Typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $3.6 billion were funded by normal State taxing activities.

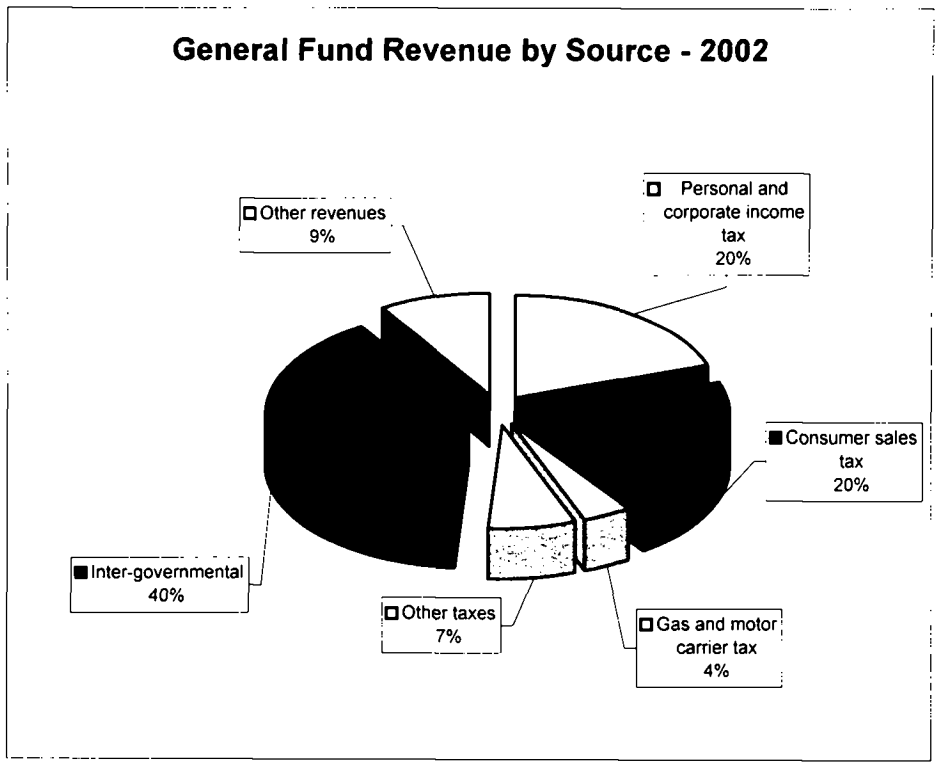
FUND HIGHLIGHTS & ANALYSIS

General Government Functions

Most State functions are financed through the general fund. The State's most significant sources of revenues in the general fund (GAAP basis) are taxes and intergovernmental. The State's most significant areas of expenditures from the general fund are the areas of public and higher education and health and human services. The following charts present actual general fund revenues and expenditures for the fiscal year ended June 30, 2002 (expressed in thousands). The information presented includes Revenue by Source for the General Fund, Expenditures by Function for the General Fund, and Changes in Fund Balance for the General Fund. The fund financial statements also provide greater detail than is presented in this overview.

Revenues by Source - General Fund

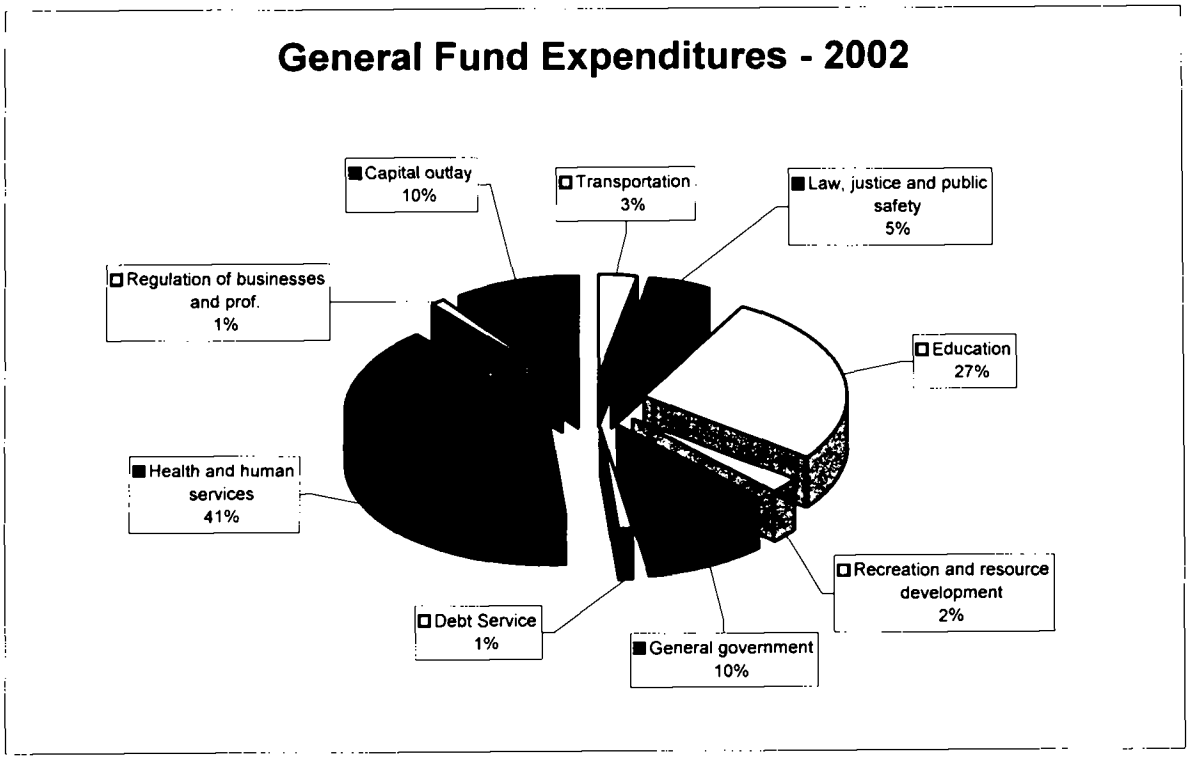
Revenues	2002
Personal and corporate income tax	$ 1,671,615
Consumer sales tax	1,766,543
Gas and motor carrier tax	324,573
Other taxes	555,917
Intergovernmental	3,430,281
Other revenues	744,851
Total	$ 8,493,780


General Fund Revenue by Source - 2002
Other revenues 9%
Personal and corporate income tax 20%
Consumer sales tax 20%
Inter-governmental 40%
Other taxes 7%
Gas and motor carrier tax 4%

Governmental revenues increased by 5.1% from the prior year. Other Taxes increased approximately $182 million; the majority of the increase is due to the full-year effect of the half-cent Property Tax Relief Act. Intergovernmental revenues increased approximately $548 million due primarily to increases in Medicaid and Education grant related expenditures that are funded by grant reimbursements.

Expenditures by Function

Expenditures	2002
Education	$ 2,231,517
Health and human services	3,292,958
Transportation	257,976
Law, justice and public safety	405,584
Recreation and resource development	196,051
General government	798,656
Regulation of businesses and professionals	96,841
Debt Service	93,392
Capital outlay	810,947
Total	$ 8,183,922


General Fund Expenditures - 2002
Capital outlay 10%
Transportation 3%
Law, justice and public safety 5%
Regulation of businesses and prof. 1%
Education 27%
Health and human services 41%
Recreation and resource development 2%
Debt Service 1%
General government 10%

Expenditures increased in fiscal year 2002 by 8.01% as the demand for governmental services rose in the areas of Health and Human Services, General Government, and Capital Outlay. Due to the economy, Health and Human Services expenditures have increased as the clients served have increased from approximately 750,000 to 1,000,000. General government expenditures have increased primarily due to the full year effect of property tax relief increases. Capital outlay increases of $148 million are due to the increased highway construction spending resulting from the third year of Arkansas' 5-Year Interstate Rehabilitation Program (IRP).

General Fund – Fund Balance

The focus of the State's general fund is to provide information on near-term inflows, outflows, and balances of resources that can be spent. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2002, the State's general fund reported an ending fund balance of $1.7 billion, which is a decrease of $90 million in comparison to fiscal year 2001.

$896 million or 52% of the total fund balance is the unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for certain items. $839 million or 48% of the total fund balance is reserved.

Capital Assets & Debt Administration

Capital Assets

The investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The investment in capital assets for the governmental and business-type activities was $13.7 billion and the accumulated depreciation was $4.9 billion at June 30, 2002. The net book value is $9 billion. Depreciation expense was $338 million for the governmental activities and $97 million for the business-type activities.

Net assets of the governmental activities increased by $800 million due to current year capital asset acquisitions primarily related to construction of buildings and infrastructure. Net assets of the business type activities increased $250 million due to current year capital asset acquisitions. In particular, the Department of Corrections expended $16 million on prison construction and renovation. State Building Services also expended $6 million on the renovation of two buildings. The Highway and Transportation Department expended $647 million on the construction of roads and bridges. The State was obligated for construction contracts in the amount of $417.1 million as of June 30, 2002.

Additional information on the State's capital assets can be found in Note 8 of the notes to the financial statements of this report.

Debt Administration

Governmental Activities

The State's governmental activities had $898 million in bonds, notes payable, and capital leases outstanding at June 30, 2002, versus $735 million at June 30, 2001. The net increase is $163 million.

New debt resulted primarily from the issuance of $185 million of Series 2001A Highway Revenue Bonds. The Soil and Water Conservation Commission issued $45 million of Series 2002 Water, Waste and Pollution Revenue Bonds to defease $53 million of outstanding bonds. Bonds, notes payable and capital leases decreased $52 million by principle payments made during the year.

The State has approximately $111 million of claims and judgments outstanding at June 30, 2002 compared to $77 million at June 30, 2001. Other obligations include accrued sick leave and vacation pay.

Business-type Activities

The State's business-type activities had $646 million in bonds and capital leases outstanding at June 30, 2002, versus $594 million at June 30, 2001. The net increase is $52 million.

New debt resulted primarily from the issuance of $85 million of Various College and University Revenue Bonds. The University of Arkansas at Fort Smith issued $41 million of student fee revenue bonds to defease $34 million of outstanding bonds. Bonds and capital leases payable decreased $80 million by principle payments made during the year.

Other obligations included accrued sick leave and vacation pay.

The following table outlines the bonds issued by the State's various agencies and their ratings by Moody's Investor Service:

General Obligation Bonds	
Highway and Transportation (2000 - 2001)	Aa2
Soil and Water Conservation (1995 - 2002)	Aa2
Department of Higher Education (1991 - 1998)	Aa2
Special Obligation Bonds	
Department of Workforce Education (1992)	Not rated
Colleges and Universities	
Henderson State University	Not rated
South Arkansas Univ - Magnolia	Aaa
South Arkansas Univ Tech - Camden	Not rated
Arkansas State University - Beebe	Aaa
Arkansas State University - Jonesboro	Aaa
Arkansas State Univ - Mountain Home	Aaa
Arkansas Tech University	Aaa
Univ of Arkansas at Fayetteville	A1
Univ of Arkansas at Little Rock	A1
Univ of Arkansas for Med Sciences	A1
Univ of Arkansas at Monticello	A1
Univ of Arkansas at Pine Bluff	A1
Univ of Central Arkansas	A3
Univ of Ark at Hope Comm College	A1
Univ of Ark Comm Coll at Batesville	A1
Univ of Arkansas at Morrilton	A1
Univ of Arkansas at Fort Smith	Aaa
East Arkansas Comm College	Not rated
Garland County Comm College	Not rated
Mid-South Technical College	Not rated
Mississippi County Comm College	Aaa
North Arkansas Comm Tech College	Not rated
Phillips Comm Coll of Univ of Arkansas	A1
Rich Mountain Comm College	Not rated
Northwest Arkansas Comm College	Not rated
Cossatot Technical College	A2
Pulaski Technical College	Aaa
South Arkansas Comm College	A2
Component Units	
Arkansas Student Loan Authority Revenue Bonds (1992 - 2002)	Aaa
Arkansas Development Finance Authority Bonds	A2

More detailed information about the State's liabilities is presented in Note 9 of the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original expenditures budget as authorized by the Arkansas Legislature was $15.5 billion and the revised expenditure budget was $14.6 billion. The difference between the two amounts is due to the adjustments for appropriation transfers and for such items as miscellaneous federal grants and budget cuts as authorized by the Arkansas Legislature.

Schedule of Expenditures - Budget vs. Actual

Functions	Budgeted amounts		Actual amounts
	Original	Final	
Education	2,473,320	2,488,352	2,260,476
General Government	5,897,425	5,628,800	1,525,045
Health and Human Services	3,594,415	3,559,974	3,224,723
Capital Outlay	382,153	863,893	747,348

The amounts reported as budgeted reflect appropriations made by the General Assembly of the State. Appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs and agencies' funds maintained by the State Treasurer or the maximum appropriation by the General Assembly. The significant variances between budgeted amounts and actual are due to the appropriations exceeding available funding sources, or delays in timing of expenditures.

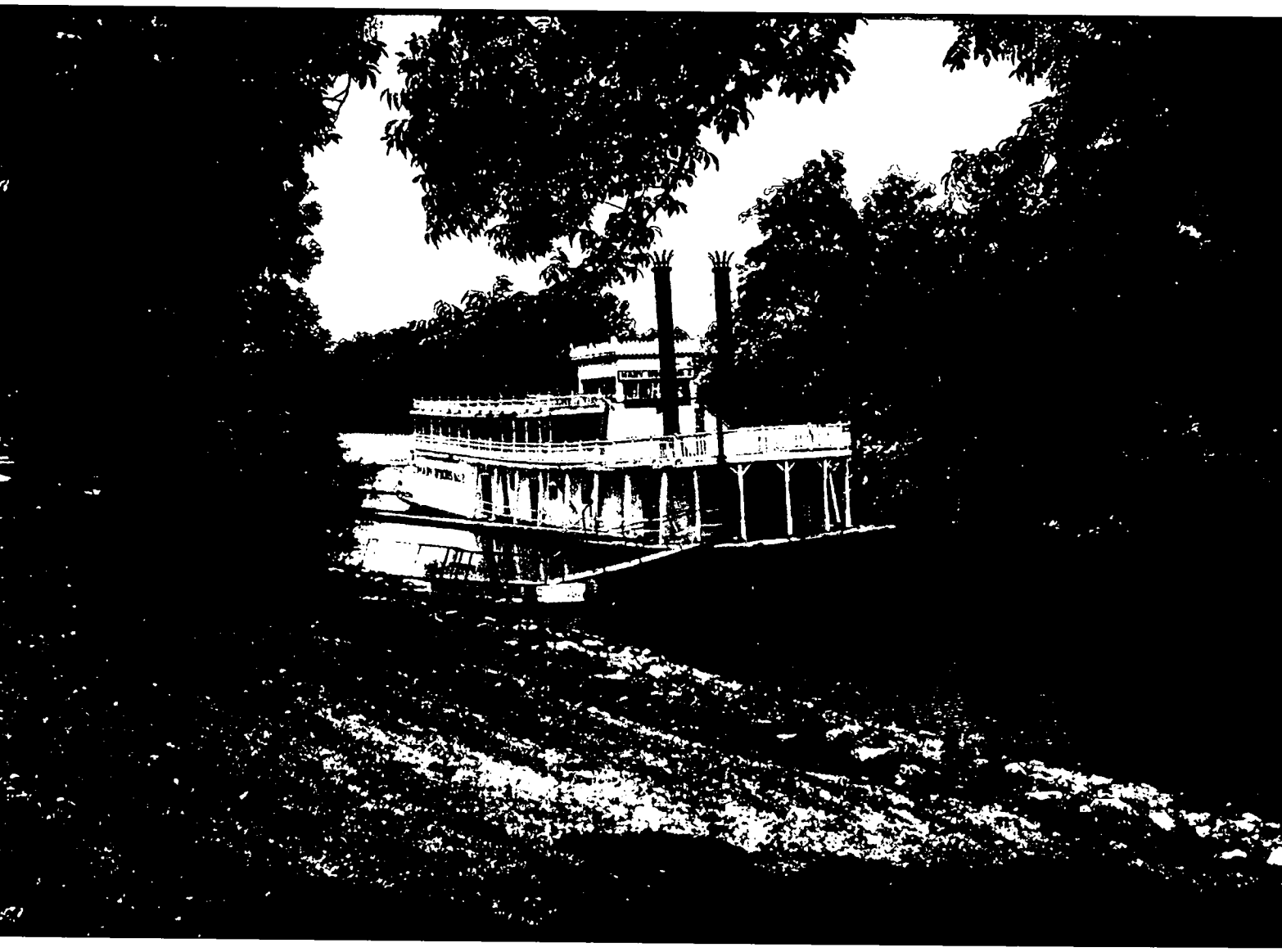
REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Arkansas's finances for all of Arkansas's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State of Arkansas, Department of Finance and Administration, PO Box 3278, Little Rock, Arkansas, 72203.

GREAT SEAL OF THE STATE OF ARKANSAS

ARKANSAS

BASIC FINANCIAL STATEMENTS



STATE OF ARKANSAS

Statement of Net Assets

June 30, 2002

(In thousands)

	Primary Government			Component Units	
Assets	**Governmental Activities**	**Business-type Activities**	**Total**	**Arkansas Student Loan Authority**	**Arkansas Development Finance Authority**
Current assets:					
Cash and cash equivalents	$ 259,440	$ 462,172	$ 721,612	$ 68	$ 138,506
Investments	1,100,326	278,932	1,379,258	33,074	1,091,468
Receivables, net:					
Accounts	50,924	234,838	285,762		1,196
Taxes	378,801		378,801		
Medicaid	137,637		137,637		
Loans	7,542	216,655	224,197	5,532	
Capital leases	4,030		4,030		9,198
Interest	7,744	2,407	10,151	6,638	8,348
Agency funds	3,490		3,490		
Internal balances	(6,747)	6,747			
Due from other governments	41,054	9,876	50,930		
Prepaid expenses	9,339		9,339		
Inventories	40,866	16,064	56,930		
Current deferred charges	359		359		
Deposits with bond trustee		30,200	30,200		
Other current assets		6,735	6,735		
Total current assets	2,034,805	1,264,626	3,299,431	45,312	1,248,716
Noncurrent assets:					
Restricted cash and cash equivalents		58,726	58,726		
Receivables, net		42,176	42,176		
Loans and mortgages receivable	86,448		86,448	233,077	299,986
Loans receivable from primary governmen					60,001
Capital lease receivable	67,202		67,202		72,895
Investments	179,338	321,963	501,301	62,087	
External portion of investment pool		299,221	299,221		
Net pension asset	8,756		8,756		
Advances to other funds	14,412	(14,412)			
Other noncurrent assets	40	25,749	25,789	4,270	11,048
Total noncurrent assets	356,196	733,423	1,089,619	299,434	443,930
Capital assets (net of accumulated depreciation):					
Land	127,327	66,163	193,490		
Land improvements	91,187		91,187		
Infrastructure	4,828,285	60,868	4,889,153		
Buildings	407,894	1,030,902	1,438,796		
Equipment	168,774	130,007	298,781	17	225
Improvements other than building		20	20		
Leasehold improvements	527	189	716		
Construction in progress	1,695,354	169,987	1,865,341		
Other depreciable assets	231,657	35,391	267,048		
Total capital assets, net of depreciation	7,551,005	1,493,527	9,044,532	17	225
Total assets	$ 9,942,006	$ 3,491,576	$ 13,433,582	$ 344,763	$ 1,692,871

STATE OF ARKANSAS

Statement of Net Assets

June 30, 2002

(In thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Liabilities					
Current liabilities:					
Accounts payable	$ 70,596	$ 172,963	$ 243,559	$ 1,838	$ 4,880
Accrued and other current liabilities	48,192	10,592	58,784		
Medicaid payable	189,478		189,478		
Income tax refunds payable	213,558		213,558		
Due to other governments	18,408	1,741	20,149		
Funds held in trust for others		4,043	4,043		
Workers' compensation benefits payable		12,719	12,719		
Bonds, notes, and leases payable	38,949	39,246	78,195	6,860	101,048
Claims, judgments, and compensated absences	53,263	6,367	59,630		
Accrued interest	7,968		7,968		28,743
Deferred revenue	10,224	30,199	40,423		9,365
Other liabilities		30,874	30,874		46,959
Total current liabilities	650,636	308,744	959,380	8,698	190,995
Long-term liabilities:					
Workers' compensation benefits payable		167,513	167,513		
External portion of investment pool		299,221	299,221		
Bonds, notes, and leases payable	859,235	607,586	1,466,821	313,765	1,329,056
Claims, judgments, and compensated absences	138,309	46,162	184,471		
Deferred revenue		110	110		
Other noncurrent liabilities		2,369	2,369		
Net pension obligation	2,208		2,208		
Total long-term liabilities	999,752	1,122,961	2,122,713	313,765	1,329,056
Total liabilities	1,650,388	1,431,705	3,082,093	322,463	1,520,051
Net assets:					
Invested in capital assets, net of related debt	6,730,616	1,014,975	7,745,591	17	225
Restricted for:					
Unemployment compensation		176,491	176,491		
Expendable - capital projects, debt service, loans and other		237,820	237,820	22,283	
Debt service	27,565	457	28,022		
Capital projects	75,188	797	75,985		
Bond resolution program		164,947	164,947		122,801
Grant program requirements	77,235	19,735	96,970		
Non-expendable		62,892	62,892		
Unrestricted	1,381,014	381,757	1,762,771		49,794
Total net assets	8,291,618	2,059,871	10,351,489	22,300	172,820
Total liabilities and net assets	$ 9,942,006	$ 3,491,576	$ 13,433,582	$ 344,763	$ 1,692,871

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Statement of Activities

For the year ended June 30, 2002

(In thousands)

Functions/Programs	Expenses	Program revenues: Charges for Services	Program revenues: Operating Grants and Contributions	Program revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Education	$ 2,236,326	$ 6,948	$ 354,417	$ 60
Health and human services	3,304,063	202,307	2,439,667	550
Transportation	522,826	12,819	412,266	5,904
Law, justice, and public safety	428,851	9,262	61,883	193
Recreation and resource developmen	217,854	45,582	41,495	
General government	836,160	319,563	124,626	
Labor, commerce, and regulatory	98,680	68,180	3,291	
Interest on long-term debt	51,215			
Total governmental activities	7,695,975	664,661	3,437,645	6,707
Business-type activities:				
Higher Education	1,856,264	1,160,109		51,731
Workers' Compensation	28,544			
Employment Security	479,834		160,833	
War Memorial Stadium	1,623	1,365		
Revolving loan – construction assistance	7,031			15,836
Revolving loans – other	1,760			3,265
Total business-type activities	2,375,056	1,161,474	160,833	70,832
Total primary government	$ 10,071,031	$ 1,826,135	$ 3,598,478	$ 77,539
Component units:				
Arkansas Student Loan Authority	$ 13,191	$ 15,418	$	$
Arkansas Development Finance Authority	107,016	117,329		11,265
Total component units	$ 120,207	$ 132,747	$	$ 11,265

General revenues:
Taxes:
Personal and corporate income
Sales and use
Motor fuel taxes
Others

Total taxes

Investment earnings
Miscellaneous income

Loss on sale of fixed assets
Transfers-internal activities

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

The notes to the financial statements are an integral part of this statement.

Net revenue (expense)					
Primary government			Component Units		
Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority	
$ (1,874,901)	$	$ (1,874,901)	$	$	
(661,539)		(661,539)			
(91,837)		(91,837)			
(357,513)		(357,513)			
(130,777)		(130,777)			
(391,971)		(391,971)			
(27,209)		(27,209)			
(51,215)		(51,215)			
(3,586,962)		(3,586,962)			
	(644,424)	(644,424)			
	(28,544)	(28,544)			
	(319,001)	(319,001)			
	(258)	(258)			
	8,805	8,805			
	1,505	1,505			
	(981,917)	(981,917)			
$ (3,586,962)	$ (981,917)	$ (4,568,879)			
			$ 2,227	$	
					21,578
			2,227		21,578
$ 1,678,750	$	$ 1,678,750			
1,780,774		1,780,774			
326,609		326,609			
556,739	249,225	805,964			
4,342,872	249,225	4,592,097			
63,167	39,565	102,732			
55,805	65,672	121,477			
(14,696)	(1,956)	(16,652)			
(609,619)	609,619				
3,837,529	962,125	4,799,654			
250,567	(19,792)	230,775	2,227		21,578
8,041,051	2,079,663	10,120,714	20,073		151,242
$ 8,291,618	$ 2,059,871	$ 10,351,489	$ 22,300	$	172,820

STATE OF ARKANSAS

Balance Sheet

Governmental Funds

June 30, 2002

(In thousands)

Assets	General Fund
Cash and cash equivalents	$ 259,440
Investments	1,279,664
Receivable, net from:	
Accounts	50,924
Taxes	378,801
Medicaid	137,637
Loans	93,990
Capital leases receivable	71,232
Interest	7,744
Due from other funds	7,076
Due from other governments	41,054
Prepaid expenses	9,339
Inventories	40,866
Advances to other funds	14,412
Other assets	40
Total assets	$ 2,392,219
Liabilities and Fund Balance	
Liabilities:	
Accounts payable	$ 70,596
Accrued and other current liabilities	48,192
Medicaid claims payable	189,478
Income tax refunds payable	213,558
Due to other funds	10,333
Due to other governments	18,408
Accrued interest payable	71
Deferred revenue	87,269
Advances from other funds	19,461
Total liabilities	657,366
Fund balance:	
Reserved for:	
Prepaids	9,339
Inventories	40,867
Debt service	35,462
Advances	14,412
Loans	86,448
Capital leases receivable	67,202
Grant programs	66,949
Capital projects	185,553
Transportation programs	170,923
Tobacco settlement	162,054
Unreserved	895,644
Total fund balance	1,734,853
Total liabilities and fund balance	$ 2,392,219

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2002

(In thousands)

Total fund balances:			
Governmental funds			$ 1,734,853
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Land and land improvements	$	234,257	
Infrastructure assets		7,774,531	
Other capital assets		3,315,612	
Accumulated depreciation		(3,773,395)	
Total capital assets, net			7,551,005
Bonds issued by the State have associated costs that are paid from current available financial resources of governmental funds. However, these costs are deferred on the statement of activities.			359
The Arkansas Judicial Retirement Plan has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a current available financial resource and is not reported in the funds.			8,756
Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.			77,044
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Bonds, notes, and leases payable	$	(870,299)	
Claims, judgments, and compensated absences		(191,572)	
Unamortized bond issue premium		(8,803)	
Net pension obligation (State police)		(2,208)	
Accrued interest on bonds		(7,897)	
Unamortized bond issue discounts		380	
Total long-term liabilities			(1,080,399)
Net assets of governmental activities			$ 8,291,618

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2002

(In thousands)

	General Fund
Revenues:	
Taxes:	
Personal and corporate income	$ 1,671,615
Consumer sales	1,766,543
Gas and motor carrier	324,573
Other taxes	555,917
Intergovernmental	3,430,281
Licenses, permits, and fees	632,281
Investment earnings	63,167
Other revenues	49,403
Total revenues	8,493,780
Expenditures:	
Current:	
Education	2,231,517
Health and human services	3,292,958
Transportation	257,976
Law, justice, and public safety	405,584
Recreation and resources development	196,051
General government	798,656
Labor, commerce, and regulatory	96,841
Debt service:	
Principal retirement	49,478
Bond interest and retirement	43,578
Bond issuance costs	336
Capital outlay	810,947
Total expenditures	8,183,922
Excess of revenues over expenditures	309,858
Other financing sources (uses):	
Proceeds from long-term obligations	185,000
Proceeds from refunding bonds	45,145
Premium on bond issuance	9,769
Payments to refunding escrow agents	(44,393)
Bond discounts	(404)
Capital leases	15,086
Transfers in	757
Transfer out	(610,376)
Total other financing sources and uses	(399,416)
Net change in fund balances	(89,558)
Fund balances, beginning (as restated)	1,824,411
Fund balances, ending	$ 1,734,853

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2002

(In thousands)

Net change in fund balance-total governmental funds		$ (89,558)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The current period, these amounts are:		
Capital outlay	$ 810,947	
Depreciation expense	(337,613)	
Excess of capital outlay over depreciation expense		473,334
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(230,145)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets.		(9,769)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets.		404
Bond issuance costs are expenditures to governmental funds, but are current deferred charges in the statement of net assets.		336
Contributions to certain pension plans use current financial resources from governmental funds, but decrease the net pension obligation $1,030 or decrease the net pension asset ($1,229).		(199)
Payments to refunding escrow agent use current financial resources to governmental funds, but reduces long-term liabilities in the statement of net assets.		44,393
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		(15,086)
Repayment of long-term debt is reported as an expenditure in governmental funds, repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement		49,478
Because some revenues will not be collected for several months after the state's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues increased by this amount this year.		80,544
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Interest accreted on capital appreciation bonds	(4,706)	
Increase in claims, judgments, and compensated absences	(30,831)	
Amortization of bond premium	977	
Loss on sale of fixed assets	(14,696)	
Accrued interest	(3,909)	
Total additional expenditures		(53,165)
Change in net assets of governmental activities		$ 250,567

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Statement of Net Assets

Proprietary Funds

June 30, 2002

(In thousands)

Assets	Enterprise funds: Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Current assets:				
Cash and cash equivalents	$ 200,300	$ 8,633	$ 253,239	$ 462,172
Receivables:				
Accounts	175,185	3,203	56,450	234,838
Loans	8,114		208,541	216,655
Interest	1,616	112	679	2,407
Other funds	8,650	444	1,439	10,533
Other governments			9,876	9,876
Investments	90,487	146,549	41,896	278,932
Inventories	16,064			16,064
Deposits with bond trustee	30,200			30,200
Other current assets	5,401	17	1,317	6,735
Total current assets	536,017	158,958	573,437	1,268,412
Noncurrent assets:				
Cash and cash equivalents	58,726			58,726
Receivables, net	42,176			42,176
Investments	309,542	10,699	1,722	321,963
External portion of investment pool	299,221			299,221
Other noncurrent assets	25,749			25,749
Total noncurrent assets	735,414	10,699	1,722	747,835
Capital assets:				
Land	62,595	580	2,988	66,163
Infrastructure	112,087			112,087
Buildings	1,706,333	2,272	17,484	1,726,089
Equipment	397,730	1,542	7,407	406,679
Improvements other than building			25	25
Leasehold improvements			245	245
Assets under construction	169,898		89	169,987
Other depreciable assets	99,907	82		99,989
Less accumulated depreciation	(1,073,139)	(1,837)	(12,761)	(1,087,737)
Total capital assets, net of depreciation	1,475,411	2,639	15,477	1,493,527
Total assets	2,746,842	172,296	590,636	3,509,774

STATE OF ARKANSAS

Statement of Net Assets

Proprietary Funds

June 30, 2002

(In thousands)

	Enterprise funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Liabilities				
Current liabilities:				
Accounts payable and other current liabilities	$ 81,514	$ 12	$ 91,437	$ 172,963
Accrued and other current liabilities	9,477	134	981	10,592
Due to other funds	1,109	5	2,672	3,786
Due to other governments			1,741	1,741
Funds held in trust for others	4,043			4,043
Workers' compensation benefits payable		12,719		12,719
Bonds, notes, and leases payable	33,386	125	5,735	39,246
Claims, judgments, and compensated absences	6,054	65	248	6,367
Deferred revenue	24,875		5,324	30,199
Other long-term liabilities	30,874			30,874
Total current liabilities	191,332	13,060	108,138	312,530
Noncurrent liabilities:				
Workers' compensation benefits payable		167,513		167,513
External portion of investment pool	299,221			299,221
Advances from other funds	14,412			14,412
Bonds, notes, and leases payable	503,026	1,800	102,760	607,586
Claims, judgments, and compensated absences payable	44,069	432	1,661	46,162
Other noncurrent liabilities	2,369			2,369
Deferred revenue			110	110
Total noncurrent liabilities	863,097	169,745	104,531	1,137,373
Total liabilities	1,054,429	182,805	212,669	1,449,903
Net assets:				
Invested in capital assets net of related debt	999,665		15,310	1,014,975
Restricted:				
Unemployment compensation			176,491	176,491
Debt service			457	457
Capital projects			797	797
Bond resolution and program			164,947	164,947
Program requirements			19,735	19,735
Nonexpendable	62,892			62,892
Expendable - capital projects, debt service, loans and other	237,820			237,820
Unrestricted	392,036	(10,509)	230	381,757
Total net assets	$ 1,692,413	$ (10,509)	$ 377,967	$ 2,059,871

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Proprietary Funds

Year ended June 30, 2002

(In thousands)

	Enterprise funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Operating revenues:				
Charges for sales and services	$	$	$ 1,365	$ 1,365
Licenses, permits, and fees	1,160,109			1,160,109
Revolving loan interest			10,660	10,660
Miscellaneous	16,781	169	462	17,412
Total operating revenues	1,176,890	169	12,487	1,189,546
Operating expenses:				
Cost of sales and services			340	340
Compensation and benefits	1,120,612	7,823	29,069	1,157,504
Supplies and services	449,182	1,486	13,197	463,865
General and administrative	72,293	18,308	9,831	100,432
Scholarships and fellowships	93,292	10		93,302
Employment Security Division benefit and aid payments			431,137	431,137
Depreciation	95,988	225	780	96,993
Amortization			286	286
Interest			5,492	5,492
Total operating expenses	1,831,367	27,852	490,132	2,349,351
Operating loss	(654,477)	(27,683)	(477,645)	(1,159,805)
Nonoperating revenues (expenses):				
Investment earnings	5,980	4,942	17,983	28,905
Taxes			240,776	240,776
Insurance tax		7,831	618	8,449
Operating grants and contributions			160,833	160,833
Interest and amortization expense	(24,897)	(112)	(116)	(25,125)
Loss on sale of fixed assets	(1,846)	(23)	(87)	(1,956)
Other nonoperating revenue (expense)	48,260	(580)		47,680
Total nonoperating revenue	27,497	12,058	420,007	459,562
Loss before transfers and contributions	(626,980)	(15,625)	(57,638)	(700,243)
Transfer to other funds in	600,290	10,086		610,376
Transfer to other funds (out)			(757)	(757)
Capital grants and contributions	51,731		19,101	70,832
Change in net assets	25,041	(5,539)	(39,294)	(19,792)
Total net assets, beginning (as restated)	1,667,372	(4,970)	417,261	2,079,663
Total net assets, ending	$ 1,692,413	$ (10,509)	$ 377,967	$ 2,059,871

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Statement of Cash Flows

Proprietary Funds

For the year ended June 30, 2002

(Expressed in thousands)

	Enterprise funds			
	Higher education	Workers' compensation commission	Non-major enterprise funds	Total
Cash flows from operating activities:				
Cash received from customers	$ 680,678	$	$ 1,342	$ 682,020
Cash received from other government agencies	329,364		149	329,513
Auxiliary enterprise charges	115,513			115,513
Payments to employees	(928,339)	(7,641)	(28,220)	(964,200)
Payments of benefits	(243,032)	(11,153)	(416,742)	(670,927)
Payments to suppliers	(498,372)	(2,088)	(18,957)	(519,417)
Interest received (paid)			10,355	10,355
Loan administration received (paid)			(8,338)	(8,338)
Other receipts (payments)	18,440		(7)	18,433
Net cash used in operating activities	(525,748)	(20,882)	(460,418)	(1,007,048)
Cash flows from noncapital financing activities:				
Gifts and grants	49,378		19,101	68,479
Direct lending receipts	85,811			85,811
Direct lending payments	(74,487)			(74,487)
Taxes		7,743	230,831	238,574
Operating grants and contributions			161,151	161,151
Other receipts (payments)	2,651			2,651
Net transfers to other funds	600,290	10,086	(757)	609,619
Net cash provided by noncapital financing activities	663,643	17,829	410,326	1,091,798
Cash flows from capital and related financing activities:				
Principal paid on capital debts and leases	(25,045)	(125)	(42,738)	(67,908)
Interest paid on capital debts and leases	(24,562)	(112)	(117)	(24,791)
Acquisition and construction of capital assets	(160,524)		(2,055)	(162,579)
Proceeds from governmental sources	36,270		339	36,609
Proceeds from long-term borrowings	84,477		37,321	121,798
Other receipts (payments)	(29,025)			(29,025)
Net cash used in capital and related financing activities	(118,409)	(237)	(7,250)	(125,896)
Cash flows from investing activities:				
Purchase of investments	(279,337)	(149,311)	(24,030)	(452,678)
Proceeds from sale and maturities of investments	272,437	154,171	17,660	444,268
Interest and dividends on investments	11,238	5,329	17,983	34,550
Loan disbursements			(28,001)	(28,001)
Loan repayments			9,409	9,409
Net cash provided by (used in) investing activities	4,338	10,189	(6,979)	7,548
Net increase (decrease) in cash and cash equivalents	23,824	6,899	(64,321)	(33,598)
Cash and cash equivalents, beginning of year	235,202	1,734	317,560	554,496
Cash and cash equivalents, end of year	$ 259,026	$ 8,633	$ 253,239	$ 520,898
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (654,477)	$ (27,683)	$ (477,645)	$ (1,159,805)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	95,988	225	780	96,993
Amortization			(76)	(76)
Bad debt expense	10		430	440
Decrease in allowance for doubtful note receivable	182			182
Indirect cost allowance	(76)			(76)
Loan principal and interest canceled	55			55
Net changes in assets and liabilities:				
Accounts receivable	7,013	269	(3,809)	3,473
Loans receivable		(444)		(444)
Other current assets	(2,321)	59	316	(1,946)
Current liabilities	496		(33)	463
Accounts payable and other long-term liabilities	18,566	6,643	17,767	42,976
Compensated absences	4,578	49	240	4,867
Deferred revenue	4,238		1,612	5,850
Net cash used in operating activities	$ (525,748)	$ (20,882)	$ (460,418)	$ (1,007,048)
Noncash investing activities:				
Increase in the fair value of investments	$ 3,431	$	$ 430	$ 3,861
Borrowing under capital lease	4,037			4,037
Donated capital assets	27,314			27,314
Capital assets donated by other state agencies	7,106			7,106

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2002

(In thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 665,074	$ 60,796
Receivables:		
Accounts		21
Employee	8,477	
Employer	7,885	
Interest and dividends	342,086	11
From other funds	19,461	
Other	119,040	1,442
Total receivables	496,949	1,474
Investments at fair value:		
Short-term investments		413,563
Bonds, notes, mortgages, and preferred stock	2,969,978	78,103
Common stock	4,409,420	
Real estate	203,923	
International investments	1,312,674	
Mutual funds	267,741	
Pooled investment funds	19,977	
Corporate obligations	951,401	
Asset backed securities	150,696	
Other	1,226,778	
Total investments	11,512,588	491,666
Securities lending collateral	1,336,377	
Fixed assets	1,072	
Other assets	1,644	
Total assets	14,013,704	553,936
Liabilities		
Accounts payable and other liabilities	4,637	92
Investment principal payable	687,579	
Obligations under securities lending	1,336,377	
Due to other governments		76,833
Due to other funds		3,490
Due to third parties		473,521
Total liabilities	2,028,593	553,936
Net Assets		
Held in trust for employee's pension benefits	11,985,111	
Total net assets	$ 11,985,111	$

The notes to the financial statements are an integral part of this statement.

STATE OF ARKANSAS

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the year ended June 30, 2002

(In thousands)

	Pension Trust Funds
Additions:	
Contributions:	
Members	$ 79,875
Employers	322,389
Court fees	2,170
Reinstatement fees	1,065
Total contributions	405,499
Investment income:	
Net decrease in fair value of investments	(1,137,744)
Interest, dividends, and other	382,987
Real estate operating income	9,493
Securities lending income	26,544
Total investment income	(718,720)
Less investment expense	(73,432)
Net investment income	(792,152)
Miscellaneous	9,599
Total additions	(377,054)
Deductions:	
Benefits paid to participants or beneficiaries	566,181
Refunds of employee contributions	4,224
Administrative expense	11,650
Total deductions	582,055
Change in net assets	(959,109)
Net assets, beginning (as restated)	12,944,220
Net assets, ending	$ 11,985,111

The notes to the financial statements are an integral part of this statement.

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS

STATE OF ARKANSAS

Notes to the Financial Statements

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June 30, 2002

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(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying basic financial statements of the State of Arkansas (the State) conform with accounting principles generally accepted in the United States of America (GAAP) for governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

The basic financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prescribed by the Department of Finance and Administration Office of Accounting. These prescribed reports and data were prepared by various state agencies and departments based on independent or subsidiary accounting records maintained by them.

(b) The Reporting Entity

For financial reporting purposes, the State of Arkansas' primary government includes all funds, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units; legally separate organizations for which the State's elected officials are financially accountable.

(c) Component Units

GAAP defines component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions (the State has no blended component units); or discrete presentation of the component units' financial data columns separate from the State's balances and transactions.

Component units are presented discretely when the entities are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Arkansas Student Loan Authority (ASLA) and Arkansas Development Finance Authority (ADFA) meet the criteria of discretely presented component units because they are legally separate, and the State is financially accountable. The State appoints a voting majority of the organization's governing body and is able to impose its will on ASLA and ADFA. The State's two discretely presented component units include:

Arkansas Student Loan Authority – ASLA was established pursuant to Act 873 of 1977, as amended. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

(Continued)

Arkansas Development Finance Authority – ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, health care, infrastructure projects, jails, and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture, and exporting.

Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority
101 East Capitol, Suite 401
Little Rock, AR 72201
800.443.6030

Arkansas Development Finance Authority
100 Main Street, Suite 200; P.O. Box 8023
Little Rock, AR 72203
501.682.5900

(d) Accounting Changes and Restatements

During fiscal year 2001-2002, the State implemented several new accounting standards issued by GASB:

Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments,*

Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,*

Statement No. 36, *Recipient Reporting for Certain Shared Non-Exchange Revenues.*

Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus* and

Statement No. 38, *Certain Financial Statements Note Disclosures.*

Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. This statement's requirements represent a significant change in the financial reporting model used by state governments, including statement formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to report government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, fund reclassifications and adjustments to the fund equities reported in the prior financial statement balances were required.

The more significant adjustments to the fund equities were attributable to the capitalization of infrastructure of $7.069 billion and recording of accumulated depreciation of $3.446 billion on governmental fixed assets, the recording of accumulated depreciation on higher education fixed assets, the inclusion of long-term liabilities in the government-wide financial statements, fund structure reclassifications made necessary by GASB Statement No. 34, and other prior period adjustments as summarized on page 35.

(Continued)

Statement No. 35, establishes accounting and financial reporting standards for public colleges and universities within the financial reporting guidelines of Statement No. 34. The Higher Education Fund, reported as a major proprietary fund, adopted the requirements of Statement No. 35. In connection with the implementation of GASB Statement No. 35 for public colleges and universities, the State began recording depreciation on higher education capital assets beginning in fiscal year 2002.

Statement No. 36 encourages symmetrical accounting treatment when governments share revenues with other governments.

Statement No. 38, requires certain note disclosures when Statement No. 34, is implemented.

Interpretation No. 6 clarifies the existing modified accrual standards for distinguishing the portion of a liability that should be reported as a governmental fund liability/expenditure from the portion that should be reported as a general long-term liability (i.e., government-wide reporting).

The provisions of these new standards have been incorporated into the financial statements and notes.

(Continued)

The following table summarizes changes to fund balances/net assets as previously reported on the combined balance sheet (in thousands):

	General Fund	Enterprise Funds: Higher Education	Enterprise Funds: Workers' Compensation Commission	Enterprise Funds: Non-major Enterprise Funds	Expendable Trust Fund	Pension Trust Funds
Ending fund balances/ fund equity (deficit) as previously reported in the 2001 Comprehensive Annual Financial Report:						
General Fund	$ 1,830,819					
Expendable Trust Fund					220,213	
Higher Education Fund		2,764,700				
Workers' Compensation Commission			(10,690)			
Enterprise Funds				163,524		
Pension Trust Funds						12,976,341
Total	1,830,819	2,764,700	(10,690)	163,524	220,213	12,976,341
GASB 34 fund structure reclassifications:						
Expendable Trust Fund to Enterprise Fund:						
Arkansas Employment Security Department				220,213	(220,213)	
General Fund to:						
Employment Security Department	(18,321)			18,321		
War Memorial Stadium Commission	(3,193)			3,193		
Total	(21,514)			241,727	(220,213)	
Prior period adjustments:						
Report accumulated depreciation		(1,070,394)				
Other adjustments of assets and liabilities, net	15,106	(26,934)	5,720	12,010		(32,121)
Total	15,106	(1,097,328)	5,720	12,010		(32,121)
Beginning fund balances/net assets as reported in the 2002 Comprehensive Annual Financial Report	$ 1,824,411	1,667,372	(4,970)	417,261		12,944,220

(Continued)

(e) Government-Wide Financial Statements

The statement of net assets and statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the definition of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

(f) Fund Financial Statements

Separate financial statements are provided for the governmental fund (i.e., the general fund), proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. The major individual governmental fund (General Fund) and the major individual proprietary funds (i.e., the Higher Education Fund and Workers' Compensation Commission) are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column for the proprietary funds.

The following describes the major funds and categories used in the accompanying financial statements:

Governmental Fund

The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the major Governmental Fund of the State:

General Fund

The general fund is the general operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State, which are not accounted for in other funds.

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to business. These funds are used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following is a description of the major proprietary funds of the State:

Higher Education Fund

The financial statements of the Higher Education Fund, which accounts for the activities of the state's Higher Education System, have been prepared as a "business-type" activity with the accounting guidance and reporting practices applicable to colleges and universities.

Workers' Compensation Commission Fund

The Workers' Compensation Commission Fund accounts for the activities of the Workers' Compensation Commission (WCC), which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment.

Non-Major Enterprise Funds

The non-major enterprise funds consist of the Employment Security Department, which is responsible for promoting employment security in the State of Arkansas; War Memorial Stadium Commission, which is responsible for the operation of the War Memorial Stadium; the Construction Assistance Revolving Loan Fund, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities; and the Other Revolving Loan Funds, which is responsible for the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation for water systems and for the financing of capitalizable educational and general projects for community and technical colleges.

(Continued)

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. These funds include pension trust and agency funds. Pension trust funds are accounted for on the accrual basis. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement or results of operations.

(g) Measurement Focus and Basis of Accounting

The accrual basis of accounting with a flow of economic resources measurement focus is utilized in the government-wide financial statements, proprietary funds, pension trust funds, and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

Governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., 45 days). Significant revenues susceptible to accrual include individual income, sales, corporate income and other taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal grants are recognized when all applicable eligibility requirements have been met, the related expenditures have been incurred, and the availability criteria of 45 days, except for Medicaid revenues, which are recognized using a one-year availability criteria, have been met. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when consumed, and (2) principal and interest on long-term debt, claims and judgments, and compensated absences are recorded when the liability has matured.

The State and the discretely presented component units have adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds That Use Proprietary Fund Accounting*. As permitted by the statement, the State has elected not to adopt Financial Accounting Standards Board (FASB) Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business type activities or component units and 2) activities between funds or component units that are reported in different functional categories in either the

governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of cash or assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund which expends the resources.

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. general government, education, health and human services, etc). In general, tax revenue is recognized on the government-wide statement of activities when assessed or levied and in the governmental fund financial statements to the extent that it is both measurable and available. Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

(h) Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit, and all short-term instruments with maturities at purchase of 90 days or less. Short-term investments are also stated at fair value.

Investments

Investments include U.S. Government and government agency obligations, repurchase agreements, state and local government obligations, and corporate debt and equity obligations. Investments are reported at fair value.

Investments in the pension trust funds are reported at fair values as determined by the custodial agents. The agents' determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Securities on loan for cash collateral are reported in the statement of net assets. Liabilities resulting from security lending transactions are also reported. Additional disclosures regarding security lending transactions are provided in note 5.

Unrealized gains and losses on investments are included in investment earnings on the respective operating statements.

The University of Arkansas System (the System) has established an investment pool (the Pool). The investments in the Pool are governed by the System Investment Policy, which was established by the University of Arkansas board of trustees. The Pool is exempt from registration with the SEC. The University of Arkansas board of trustees and the University of Arkansas Foundation board of trustees are the sponsors of this investment pool and are responsible for the operation and oversight of the pool. Participation in the Pool is voluntary. At June 30, 2002, five universities and two foundations participated in the Pool. These foundations hold approximately $299.2 million (external portion) of the investments in the Pool, which are reported separately along with the related liability in the Higher Education Fund and in the business-type activities column of the government-wide financial statements. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207-3608, (501) 686-2500.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion) or "advances to/from other funds" (noncurrent portion). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the general fund to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories and Prepaid Items

Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. Inventory and prepaid balances as reported in the general fund financial statements are recorded as a reserve of fund balance indicating that they do not constitute "available spendable financial resources."

Capital Assets

Methods Used to Value Capital Assets

Capital assets, which include property, plant, and equipment, and infrastructure items (e.g. roads, bridges, ramps and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair market value at the date of donation.

Capitalization Policies

All land and nondepreciable land improvements are capitalized, regardless of cost. All other capital assets, including equipment, are capitalized when the individual items exceed $2,500.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Items not Capitalized and Depreciated

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues; monuments; historical documents; paintings; rare library books; miscellaneous capital-related artifacts and furnishings; and the like. GASB Statement No. 34 does not require these items to be capitalized because: 1) the items are held for reasons other than financial gain; 2) the items are protected, kept unencumbered, cared for, and preserved; and 3) the items are subject to a State policy requiring that the proceeds from sales of collection items be used to acquire other items for collections.

Depreciation and Useful Lives

Applicable capital assets are depreciated using the straight-line method, with a half-year's depreciation charged in the year of acquisition and in the year of disposal. Agencies were assigned useful lives that were most suitable for the particular assets. Estimated useful lives generally were assigned as follows:

	Years
Assets:	
Equipment	5-10
Buildings	40
Infrastructure	30
Land improvements	20-30
Leasehold improvements	10-99
Other depreciable assets	15-99

Accrued and Other Current Liabilities

The State has established a liability for both reported and unreported insured events in the government-wide financial statements, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information, and currently recognized trends affecting data specific to the State. Because actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, and inflation, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates. In addition, the Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Construction

(Continued)

Assistance Revolving Loan Fund, ADFA, and ASLA have made provisions for revenues above the rebate limit, which must be remitted to the Federal Government.

Income Tax Refunds Payable

Income tax refunds are accounted for as a reduction in the appropriate tax revenue category. The amounts reported as income tax refunds payable at June 30, 2002, is related to projected refund estimates attributable to fiscal year 2002 tax revenues.

Compensated Absences

In the government-wide and proprietary fund financial statements, the State accrues liabilities for compensated absences as services are incurred and benefits accrue to employees.

In the governmental fund financial statements, liabilities for compensated absences are accrued only if they have matured and are recorded in the fund only for separations or transfers that occur before year-end.

Deferred Revenue

In the government-wide financial statements and proprietary fund financial statements deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable.

Bond-Related Items

In the government-wide financial statements and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized in the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Net Assets/Fund Balance

The difference between total assets and total liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund financial statements, and "Fund Balance" on the governmental fund financial statements. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or legally segregated for a specific future use.

Restricted Assets/Net Assets

Assets and net assets are reported as restricted when constraints placed on the asset or net asset use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted assets primarily consist of unemployment compensation, bond resolution programs, transportation programs, debt service, capital projects, and various other purposes and may only be used for the legally restricted purposes as allowed by law.

(i) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(j) New Accounting Pronouncements Not Yet Required to be Adopted

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*, provides specific criteria for evaluating whether certain legally separate, tax-exempt entities should be included as component units because of the nature and significance of their relationship with the primary government and its component units. This statement is effective for periods beginning after June 15, 2003 (i.e., fiscal year 2004). Management has not yet determined the effect this new statement will have on its financial statements..

(2) Deposits and Investments

(a) Cash

Arkansas Code requires that all cash fund agencies, other than the institutions of Higher Education, abide by the cash management and investments standards and procedures promulgated by the State Board of Finance. The stated primary goal of state cash management is the protection of principal, while maximizing investment earnings and minimizing non–interest bearing balances.

(Continued)

Cash and cash equivalents are defined as short-term highly liquid investments with original maturities of 90 days or less. The reported amount of total deposits at June 30, 2002 is as follows (expressed in thousands):

	Primary government	Component units
Carrying value of deposits	$ 481,014	2,812
Bank balance of deposits	592,434	2,812
Amount insured or collateralized with securities held by the State or its agent in the State's name	443,885	1,168
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name	105,504	1,644
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name	43,045	

The following schedule reconciles the reported amount of deposits as disclosed above to the statement of net assets (expressed in thousands):

	Primary government	Component units
Reported amount of deposits	$ 481,014	2,812
Cash on hand	2,766	
Undeposited receipts	3,347	
Cash held at U.S. Treasury	191,152	
Cash equivalents disclosed as investments for GASB 3	827,929	135,762
Cash and cash equivalents as reported on the statement of net assets	$ 1,506,208	138,574
Cash and cash equivalents as reported on the statement of net assets (by reporting unit):		
Governmental activities	$ 259,440	
Business-type activities	520,898	
ASLA		68
ADFA		138,506
Pension Trust Funds	665,074	
Agency Funds	60,796	
Total	$ 1,506,208	138,574

(b) Investments

State funds are invested by the Treasurer, as well as various state agencies, including the Retirement Systems, institutions of Higher Education, and Discretely Presented Component Units. Permissible

(Continued)

investments include those guaranteed by the United States of America, its agencies, and instrumentalities (U.S. government obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Purchased and donated investments as well as investments held in an agency capacity are stated at fair value. In accordance with GASB Statement No. 3, the State's investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

(c) Primary Government

Investments for the Primary Government at June 30, 2002, by security type and level of risk are as follows (expressed in thousands):

Security type	Custodial Credit Risk 1	2	3	Reported amount/ fair value
Categorized:				
Cash equivalents (CD's & MM's)	$ 172,705	587,619	67,605	827,929
Government securities	2,398,347	1,818	1,897	2,402,062
Corporate stocks	4,530,104	1,095	7,456	4,538,655
Bonds	1,890,034	12,127	14,224	1,916,385
Bank obligations	749,085	28,828	17,101	795,014
Securities lending collateral	1,372,272			1,372,272
Certificates of indebtedness			6	6
Other asset-backed securities	228,162			228,162
International securities	1,315,303		899	1,316,202
Managed investment pool	21,911		4,947	26,858
Mortgage securities	475,111			475,111
Repurchase agreements	4,797	2,418		7,215
Other categorized investments	40,274	3,577	5,104	48,955
Total investments categorized by security type	$ 13,198,105	637,482	119,239	13,954,826
Uncategorized:				
Mutual funds				396,455
External investment pool				299,221
Guaranteed investment contract				6,500
Limited partnerships				1,009,420
Real estate investments				370,654
Mortgage loans				249,055
Other investments				62,209
Total				$ 16,348,340

(Continued)

The following schedule reconciles the carrying amount of investments as disclosed above to the statement of fiduciary assets (expressed in thousands):

Reported amount of investments	$	16,348,340
Cash equivalents disclosed as investments for GASB 3		(827,929)
Investments as reported on the statement of net assets	$	15,520,411
Investments as reported in the accompanying financial statements (by reporting unit):		
Governmental activities	$	1,279,664
Business-type activities		900,116
Pension trust funds		12,848,965
Agency Funds		491,666
Total	$	15,520,411

(d) Component Units

Investments for the Discretely Presented Component Units at June 30, 2002, by security type and level of risk are as follows (expressed in thousands):

Security type	Custodial Credit Risk 1	2	3	Reported amount/ fair value
Categorized:				
Government securities	$ 949,055			949,055
Money market accounts	135,762			135,762
Guaranteed investment contracts			62,087	62,087
Repurchase agreements	2,349			2,349
Total investments categorized by security type	$ 1,087,166		62,087	1,149,253
Uncategorized:				
Investment agreements				173,138
Total				$ 1,322,391

(Continued)

The following schedule reconciles the carrying amount of investments as disclosed above to the statement of net assets (expressed in thousands):

Reported amount of investments	$	1,322,391
Cash equivalents disclosed as investments for GASB 3		(135,762)
Investments as reported on the statement of net assets	$	1,186,629
Investments as reported on the statement of net assets (by reporting unit):		
ASLA	$	95,161
ADFA		1,091,468
Total	$	1,186,629

(3) Derivatives

Primary Government

(a) Forward Currency Contracts

Arkansas Public Employees Retirement System (APERS) and Arkansas Teacher Retirement System (Teacher) enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward-exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net increase (decrease) in fair value of investments in the statement of changes in plan net assets. At June 30, 2002, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of $9.71 million, collectively. Market values of these outstanding contracts were $9.79 million resulting in an unrealized net gain of approximately $.08 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of $21.2 million at June 30, 2002. Market values of these contracts were $21.9 million resulting in an unrealized net gain of approximately $.7 million.

(b) Mortgage-Backed Securities

APERS, Teacher, and Arkansas State Highway Employees Retirement System (ASHERS) invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk (see note 3 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these

(Continued)

securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

(c) Pooled Funds

APERS and State Police had approximately $190 and $25 million, respectively, invested in international pooled funds. These entities could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

Component Units

(d) Mortgage-Backed Securities

ADFA invests in various asset and mortgage-backed securities. These securities are reported at fair value in the combined balance sheet. They are also included in the totals of U.S. Government and Agency securities in the disclosure of custodial credit risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

(e) Interest Rate Swaps

ADFA has entered into an interest rate swap agreement to effectively convert $10 million of variable rate debt based on the three-month LIBOR to fixed rate debt with an effective fixed rate of 7.698%. ADFA is exposed to interest rate risk under the swap agreement if the three-month LIBOR rate is less than 7.418%. The interest rate swap agreement is set to expire January 2, 2014.

ASLA has entered into an interest rate swap agreement to effectively convert $33.65 million of fixed rate debt to variable rate debt with a weighted average interest rate based on the PSA Municipal Swap Index. The effective interest rate of the debt was 2.5% for the period ended June 30, 2002. The differential to be paid or received on the interest rate swap is accrued as interest rates change and is charged or credited to interest expense over the life of the agreement. ASLA's credit risk related to this interest rate swap agreement is generally the differential, if any, payable by the counterparty which accumulated prior to the June 1 and December 1 settlement dates each year. ASLA is exposed to interest rate risk under the swap agreement and will incur interest expense above the related bond interest rates if the weighted PSA Municipal Swap Index rate exceeds 4.84%. The related PSA Municipal Swap Index rate was 1.26% at June 30, 2002. The interest rate swap agreement is set to expire June 1, 2003.

(4) Securities Lending Transactions

State Police, Teacher, and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 102% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The

(Continued)

program is administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 2002 includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, governmental agency securities, and non-U.S. sovereigns. Securities on loan at fiscal year end for cash collateral are uncategorized in the preceding summary of deposits and investments (note 3); securities on loan for noncash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the statement of plan net assets. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded as obligations under securities lending. At June 30, 2002, cash collateral and investments made with cash collateral was approximately $1.34 billion. These securities have also been classified in the preceding summary of deposits and investments (see note 3). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 2002 was $1.34 billion and total collateral received from these securities on loan was $1.34 billion. At June 30, 2002, the pension systems have no credit risk exposure to borrowers because the amounts the pension systems owe the borrowers exceed the amounts the borrowers owe the pension systems.

(5) Short Sales of Securities

Teacher participates in short sales of securities, as allowed under the prudent investor rule as set forth by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 17, whereby investment securities are borrowed and sold in anticipation of a price decline. If the price declines, the short seller generates a gain and closes out the short position with a purchase of like securities at a cost that is less than the obligation created by the initial borrowing. Because short sale borrowings represent obligations to deliver securities, they are not investments. The code does not specify the types of securities that can participate in such sales. Short sale obligations are marked-to-market and are recorded as a liability as of June 30, 2002, at a fair value of $22.1 million. The short sale transactions are administered by a custodial agent bank.

(Continued)

(6) Receivables

Receivables at June 30, 2002 consisted of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Employee/ Employer	Medicaid	Loans	Capital lease receivable	Investment-Related	Other receivables		Allowance for uncollectibles	Total
General Fund	$ 50,924	485,128		137,637	95,020	71,232	7,744	3,490	(1)	(107,357)	743,818
Higher Education Fund	816,093				8,114		1,616	8,650		(598,732)	235,741
WCC	3,203						112	444			3,759
Non-major Enterprise Funds	81,309				208,541		679	11,315		(24,859)	276,985
Pension Trust			16,362				342,086	138,501			496,949
Agency	21						11	1,442			1,474
Total	$ 951,550	485,128	16,362	137,637	311,675	71,232	352,248	163,842		(730,948)	1,758,726

(1) Reflected as "due from other funds" in general fund and "receivables-agency funds" in government-wide.

Component Units

	Accounts	Loans	Capital lease receivable	Investment-related	Allowance for uncollectibles	Net receivable by component unit
ASLA	$	240,334		6,638	(1,725)	245,247
ADFA	1,196	372,919	82,093	8,348	(12,932)	451,624
Total	$ 1,196	613,253	82,093	14,986	(14,657)	696,871

All receivables, net of allowance for uncollectibles, are expected to be received within one year.

(Continued)

(7) Intergovernmental Activity (expressed in thousands)

(a) Interfund Receivables and Payables

		Due from	Due to
General Fund	$	7,076	10,333
Higher Education Fund		8,650	1,109
Workers' Compensation Commission		444	5
Non-major Enterprise Funds		1,439	2,672
Agency Funds			3,490
Total	$	17,609	17,609

Interfund receivables and payables include $2.5 million due from the Employment Security Division to the General Fund for computer services; $3.5 million due from the Employee Benefits Division Agency Fund to the General Fund for FICA savings and forfeited cafeteria plan withholding, which will be deposited in the Employee Health Plan Fund; and $8.1 million due from the General Fund to the Higher Education Fund for financial aid, payroll reimbursement, Arkansas Academic Challenge Scholarship, and training contract with the Department of Human Services. All amounts are expected to be repaid within one year except for amounts included in advances to/from other funds – primary government as detailed below.

(b) Advances To/From Other Funds – Primary Government

		Advances to	Advances from
Higher Education Fund	$	14,412	
General Fund		19,461	14,412
Pension Trust – Teacher			19,461
Total	$	33,873	33,873

Advances include an outstanding balance of $19,461 loaned to the general fund, i.e., Department of Education, by the Teacher's Pension Trust Fund for the purchase of accounting software to be repaid over 15 years at 8% interest maturing in fiscal year 2012, and advances to the higher education fund for the construction of a biomedical research building. Repayment terms are based upon tax revenue from the 4% additional mixed drink tax collected each fiscal year. Interest is charged at 2.5% annually.

(Continued)

(c) Transfers

		Operating transfers in	Operating transfers out
General Fund	$	757	610,376
Higher Education Fund		600,290	
Enterprise Fund – Workers' Compensation Commission		10,086	
Non-Major Enterprise Fund – Employment Security Department			757
Total	$	611,133	611,133

The transfer from the General Fund to the Higher Education Fund was for State funding of higher education. The transfer from the General Fund to the Workers' Compensation Commission Fund was for the payment of insurance premiums. The transfer from the Employment Security Department to the General Fund was for employment security reimbursements.

(8) Capital Assets

(a) Primary Government

Capital asset activity for the year ended June 30, 2002 was as follows (expressed in thousands):

(Continued)

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 116,583	10,768	(24)	127,327
Construction in progress	1,690,712	706,482	(701,840)	1,695,354
Total capital assets, not being depreciated	1,807,295	717,250	(701,864)	1,822,681
Capital assets, being depreciated:				
Land improvements	100,054	7,110	(234)	106,930
Infrastructure	7,069,125	705,619	(213)	7,774,531
Leasehold improvements	549	174		723
Buildings	705,503	11,032	(70)	716,465
Equipment	646,769	48,656	(24,630)	670,795
Other depreciable assets	208,050	24,225		232,275
Total capital assets, being depreciated	8,730,050	796,816	(25,147)	9,501,719
Subtotal	10,537,345	1,514,066	(727,011)	11,324,400
Less accumulated depreciation for:				
Land improvements	(14,484)	(1,277)	18	(15,743)
Infrastructure	(2,684,310)	(261,962)	26	(2,946,246)
Leasehold improvements	(168)	(28)		(196)
Buildings	(289,566)	(19,005)		(308,571)
Equipment	(457,147)	(55,270)	10,396	(502,021)
Other depreciable assets	(547)	(71)		(618)
Total accumulated depreciation	(3,446,222)	(337,613)	10,440	(3,773,395)
Governmental activities capital assets, net	$ 7,091,123	1,176,453	(716,571)	7,551,005

(Continued)

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 62,555	3,876	(268)	66,163
Construction in progress	209,617	136,588	(176,218)	169,987
Total capital assets, not being depreciated	272,172	140,464	(176,486)	236,150
Capital assets, being depreciated:				
Improvements other than building	25			25
Leasehold improvements	245			245
Buildings	1,529,889	215,355	(19,155)	1,726,089
Equipment	517,648	53,756	(164,725)	406,679
Other depreciable assets	95,568	6,089	(1,668)	99,989
Infrastructure	100,217	13,417	(1,547)	112,087
Total capital assets, being depreciated	2,243,592	288,617	(187,095)	2,345,114
Less accumulated depreciation for:				
Land improvements	(5)			(5)
Leasehold improvements	(48)	(8)		(56)
Buildings	(651,476)	(47,379)	3,668	(695,187)
Equipment	(322,925)	(39,791)	86,044	(276,672)
Other depreciable assets	(58,884)	(5,842)	128	(64,598)
Infrastructure	(48,098)	(3,973)	852	(51,219)
Total accumulated depreciation	(1,081,436)	(96,993)	90,692	(1,087,737)
Total capital assets, being depreciated, net	1,162,156			1,257,377
Business-type activities capital assets, net	$ 1,434,328			1,493,527

(Continued)

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
Major Enterprise Funds:				
Higher Education:				
Capital assets, not being depreciated:				
Land	$ 58,987	3,876	(268)	62,595
Assets under construction	209,617	136,499	(176,218)	169,898
Total capital assets, not being depreciated	268,604	140,375	(176,486)	232,493
Capital assets being depreciated:				
Buildings	1,511,778	213,710	(19,155)	1,706,333
Equipment	508,659	53,616	(164,545)	397,730
Other depreciable assets	95,486	6,089	(1,668)	99,907
Infrastructure	100,217	13,417	(1,547)	112,087
Total capital assets, being depreciated	2,216,140	286,832	(186,915)	2,316,057
Less accumulated depreciation for:				
Buildings	(643,723)	(46,943)	3,668	(686,998)
Equipment	(317,002)	(39,245)	85,879	(270,368)
Other depreciable assets	(58,848)	(5,834)	128	(64,554)
Infrastructure	(48,105)	(3,966)	852	(51,219)
Total accumulated depreciation	(1,067,678)	(95,988)	90,527	(1,073,139)
Total capital assets, being depreciated, net	1,148,462			1,242,918
Major Enterprise Funds capital assets, net	$ 1,417,066			1,475,411

(Continued)

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
Workers' Compensation Commission:				
Capital assets, not being depreciated:				
Land	$ 580			580
Total capital assets, not being depreciated	580			580
Capital assets being depreciated:				
Buildings	2,272			2,272
Equipment	1,722		(180)	1,542
Other depreciable assets	82			82
Total capital assets, being depreciated	4,076		(180)	3,896
Less accumulated depreciation for:				
Buildings	(586)	(74)		(660)
Equipment	(1,149)	(151)	167	(1,133)
Other depreciable assets	(44)			(44)
Total accumulated depreciation	(1,779)	(225)	167	(1,837)
Total capital assets, being depreciated, net	2,297			2,059
Workers' Compensation Commission capital assets, net	$ 2,877			2,639

(Continued)

(b) Discretely Presented Component Units

Activity for ADFA for the year ended June 30, 2002 was as follows (expressed in thousands):

		Balance July 1, 2001	Additions	Balance June 30, 2002
Capital assets being depreciated:				
Equipment	$	713	39	752
Less accumulated depreciation for:				
Equipment		(226)	(301)	(527)
Total capital assets, being depreciated, net		487	(262)	225
ADFA capital assets, net	$	487	(262)	225

Activity for ASLA for the year ended June 30, 2002 was as follows (expressed in thousands):

		Balance July 1, 2001	Additions	Balance June 30, 2002
ASLA:				
Capital assets being depreciated:				
Equipment	$	324	4	328
Less accumulated depreciation for:				
Equipment		(297)	(14)	(311)
ASLA capital assets, net	$	27	(10)	17

(Continued)

(c) Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental Activities:	
Education	$ 5,526
Health and human services	11,469
Transportation	264,003
Law, justice, and public safety	19,328
Recreation and resources development	21,191
General government	14,575
Labor, commerce and regulatory	1,521
Total depreciation expense – governmental	$ 337,613
Business-type Activities:	
Enterprise Funds	$ 96,993
Total depreciation expense – business-type activities	$ 96,993
Component Units:	
ADFA	$ 301
ASLA	14
Total depreciation expense – component units	$ 315

(Continued)

(9) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2002 are summarized as follows (in thousands):

	Balance, July 1, 2001 (restated)	Additions	Accretion on capital appreciation bonds	Reductions	Refunding	Balance, June 30, 2002	Due within one year	Due greater than one year
Governmental Activities:								
Bonds payable:								
General obligation	$ 552,834	230,145	4,706	30,353	44,393	712,939*	19,729	693,210
Special obligation	860			95		765	80	685
Plus/(less):								
Issuance premium (discount)	36	9,769		1,381		8,424		8,424
Total bonds payable	553,730	239,914	4,706	31,829	44,393	722,128	19,809	702,319
Other debt instruments	3,802			1,235		2,567	1,301	1,266
Notes payable to component unit	64,374			4,373		60,001	3,414	56,587
Note payable to pension trust fund	20,705			1,244		19,461	1,343	18,118
Mortgage payable	1,550			1,550				
Capital leases	21,646	53		4,855		16,844	4,113	12,731
Capital leases with component unit	69,167	15,033		7,017		77,183	8,969	68,214
Total notes and leases payable	181,244	15,086		20,274		176,056	19,140	156,916
Subtotal bonds, notes, and leases payable	734,974	255,000	4,706	52,103	44,393	898,184	38,949	859,235
Claims and judgments	91,256	19,998				111,254	42,822	68,432
Compensated absences	69,485	10,833				80,318	10,441	69,877
Subtotal claims, judgments, and compensated absences	160,741	30,831				191,572	53,263	138,309
Net pension obligation	3,238			1,030		2,208		2,208
Governmental activity total	$ 898,953	285,831	4,706	53,133	44,393	1,091,964	92,212	999,752

* includes accretion on capital appreciation bonds of $64,158.

(Continued)

	Balance, July 1, 2001 (restated)	Additions	Reductions	Refunding	Balance, June 30, 2002	Due within one year	Due greater than one year
Business-type Activities:							
Bonds payable:							
Special obligation:							
War Memorial	$ 2,690		855		1,835	895	940
Construction Assistance Revolving Loan Fund	112,135	37,321	41,341		108,115	4,840	103,275
College and University Revenue Bonds	466,488	126,900	33,166	34,380	525,842	29,522	496,320
Less issuance discounts	(1,074)	(542)	(161)		(1,455)		(1,455)
Total bonds payable	580,239	163,679	75,201	34,380	634,337	35,257	599,080
Capital leases	11,271	4,037	5,387		9,921	3,760	6,161
Capital leases with component unit	2,803		229		2,574	229	2,345
Total lease payable	14,074	4,037	5,616		12,495	3,989	8,506
Subtotal bonds and lease payable	594,313	167,716	80,817	34,380	646,832	39,246	607,586
Compensated absences	47,252	5,277			52,529	6,367	46,162
Business-type activity total	$ 641,565	172,993	80,817	34,380	699,361	45,613	653,748
Major Enterprise Funds:							
Higher Education Fund:							
Bonds payable:							
College and University Revenue Bonds	$ 466,488	126,900	33,166	34,380	525,842	29,522	496,320
Capital leases	11,271	4,037	5,387		9,921	3,759	6,162
Capital leases with component unit	754		105		649	105	544
Total lease payable	12,025	4,037	5,492		10,570	3,864	6,706
Subtotal bonds and lease payable	478,513	130,937	38,658	34,380	536,412	33,386	503,026
Compensated absences	45,088	5,035			50,123	6,054	44,069
Higher Education total	$ 523,601	135,972	38,658	34,380	586,535	39,440	547,095
Workers' Compensation Commission Fund:							
Capital leases with component unit	$ 2,049		124		1,925	125	1,800
Total lease payable	2,049		124		1,925	125	1,800
Compensated absences	447	50			497	65	432
Workers' Compensation Commission total	$ 2,496	50	124		2,422	190	2,232

(Continued)

	Balance, July 1, 2001 (restated)	Additions	Reductions	Balance, June 30, 2002	Due within one year	Due greater than one year
Component units:						
Bonds payable:						
Revenue	$ 271,845	61,800	13,005	320,640	6,860	313,780
Special Obligation	1,510,611	253,838	332,383	1,432,066	101,048	1,331,018
Less issuance discounts	(415)	(1,696)	(134)	(1,977)		(1,977)
Component unit total	$ 1,782,041	313,942	345,254	1,750,729	107,908	1,642,821

Primary Government

Governmental Activities

General Obligation Bonds – The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 2002, including accrued accreted interest of approximately $64 million on capital appreciation bonds, were as follows (expressed in thousands):

(Continued)

	Final maturity date	Interest rates %	Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2000A Series Federal Highway G.O. Bonds	2012	5.25 - 5.50	$ 175,000
2001A Series Federal Highway G.O. Bonds	2013	4.00 - 5.25	185,000
Soil and Water Conservation Bonds:			
1995A Series Water Resources G.O. Bonds	2024	4.80 - 5.60	4,535
1995B Series Water Resources G.O. Bonds	2025	4.40 - 5.75	6,500
1997B Series Water Resources G.O. Bonds	2026	4.20 - 5.25	13,345
1998 Series Water Resources G.O. Bonds	2027	4.50 - 4.88	9,235
1994A Series Water Disposal G.O. Bonds	2008	4.80 - 5.50	5,465
1995A Series Water Disposal G.O. Bonds	2025	4.25 - 5.50	2,185
1996A Series Water Disposal G.O. Bonds	2025	5.10 - 5.63	4,500
1997A Series Water Disposal G.O. Bonds	2026	4.20 - 5.25	4,540
1998A Series Water Disposal G.O. Bonds	2027	4.50 - 5.05	9,315
2000A Series Water, Waste, and Pollution	2033	4.75 - 5.75	5,000
2001A Series Water, Waste, and Pollution	2011	4.65 - 6.30	8,940
2001B Series Water, Waste, and Pollution	2011	3.25 - 4.45	3,295
2002A Series Water, Waste, and Pollution	2026	4.00 - 5.00	13,995
2002B Series Water, Waste, and Pollution	2025	4.25 - 5.00	6,895
2002C Series Water, Waste, and Pollution	2020	3.50 - 5.00	8,455
2002D Series Water, Waste, and Pollution	2017	3.00 - 4.75	9,550
2002E Series Water, Waste, and Pollution	2012	2.75 - 5.80	3,500
2002F Series Water, Waste, and Pollution	2012	2.00 - 4.20	2,750
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.40 - 7.00	13,499
1991B Series, G.O. Bonds	2012	6.45 - 7.00	20,831
1991C Series, G.O. Bonds	2013	6.25 - 6.90	13,563
1993 Series, G.O. Bonds	2014	5.15 - 5.95	16,672
1995 Series, G.O. Bonds	2015	4.60 - 5.90	18,453
1996A Series, G.O. Bonds	2016	4.00 - 5.65	20,678
1996 Series, G.O. Bonds	2016	4.65 - 6.30	14,959
1996C Series, G.O. Bonds	2016	4.40 - 6.00	23,406
1997A Series, G.O. Bonds	2017	4.70 - 6.05	27,037
1997B Series, G.O. Bonds	2017	4.15 - 5.60	25,648
1998A Series, G.O. Bonds	2017	4.00 - 5.35	36,193
Total			$ 712,939

(Continued)

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2002 were as follows:

		Principal	Interest	Total
Year ending June 30:				
2003	$	14,339	32,292	46,631
2004		19,634	35,726	55,360
2005		21,232	35,585	56,817
2006		54,800	34,437	89,237
2007		56,537	33,341	89,878
2008-2012		312,898	131,782	444,680
2013-2017		120,701	80,539	201,240
2018-2022		22,685	9,755	32,440
2023-2027		22,735	3,813	26,548
2028-2032		2,575	439	3,014
2033-2037		645	29	674
Total	$	648,781	397,738	1,046,519

Details of general obligation bonds outstanding are as follows:

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds – Act 1027 of 1999 and a statewide election conducted June 15, 1999, authorized the State to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $575 million to be issued in several series of various principal amounts. The bonds were issued to pay the cost of constructing ad renovating improvements to interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily by revenues derived from the tax on diesel fuel at the rate of 4 cents per gallon.

State Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds – Act 607 of 1997, authorized the State to issue Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this ac are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to approximately $260 million with no more than $60 million being issued during any fiscal biennium for nonrefunding purposes unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water, waste disposal, pollution abatement, drainage and flood control, irrigation and wetland preservation facilities projects in the state. The bonds are payable from the general revenues of the State.

State Water Resources Development General Obligation Bonds – Act 496 of 1981, as amended, authorized the Soil and Water Conservation Commission to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $100 million with no more than $15 million being issued during any fiscal biennium unless the General Assembly bylaw authorizes a greater amount to be

(Continued)

issued. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission with the exception of the portion of the Series 1992A and the Series 1996A bonds. A portion of the Series 1992A bonds were issued to refund the outstanding principal amount of the Water Series 1985 bonds. The Series 1996A bonds were issued to defease the outstanding principal amount of the Water Series 1985 bonds. The Series 1996A bonds were issued to defease the outstanding principal of the Water Series 1989A bonds. The bonds are payable from the general revenues of the State, any repayments on project loans and investing earnings on the proceeds of the bonds.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds – Act 686 of 1987, as amended, authorized the State to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $250 million with no more than $50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas with the exception of the Series 1992B and 1994A bonds which were issued to refund the outstanding principal amount of Waste Series 1990A and 1992A bonds, respectively. The bonds are payable from the general revenues of the State, any repayments on project loans, and investment earnings on the proceeds of the bonds.

College Savings General Obligation Bonds – Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act provides that no more than $100 million may be issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at state institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds.

Special Obligation Bonds – Special obligation bonds are issued by various state departments, agencies, and authorities which are part of the primary government. Special obligation bonds are issued pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues generated by the appropriate program. Special obligation bonds do not constitute general debt of the State.

Special obligation bonds outstanding at June 30, 2002 were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Vocational and Technical Education – Capital Improvements – 1992A Series	2012	5.80-6.38	$	765

(Continued)

Future amounts required to pay principal and interest on special obligation bonds at June 30, 2002 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:	$			
2003		80	48	128
2004		85	43	128
2005		90	38	128
2006		95	32	127
2007		100	26	126
2008-2012		315	40	355
Total	$	765	227	992

Details of special obligation bonds outstanding are as follows:

Vocational and Technical Education – The capital improvement revenue bonds were issued under the authority of Act 6 of the First Extraordinary Session of 1968, as amended. The bonds are special obligations of the Department of Workforce Education and are payable from and secured solely by pledged revenues and investment earnings on the proceeds of the bonds. The proceeds from the sale of the bonds were used to finance various capital improvements at vocational technical schools.

Other Debt Instruments – Other debt instruments are similar to special obligation bonds in regard to the methods of issuance and the sources of repayment of principal and interest.

Other debt instruments outstanding at June 30, 2002 were as follows (expressed in thousands);

	Final maturity date	Interest rate(s) %		Balance
Certificates of indebtedness:			$	
State Building Services – 1984 Issue "A"	2004	8.50		510
State Building Services – 1984 Issue "C"	2004	8.50		1,241
State Building Services – 1985 Issue "D"	2004	8.50		524
State Building Services – 1986 Issue "E"	2004	8.50		50
Certificates of participation:				
Department of Education – 1996 Series	2004	7.00-7.50		242
Total			$	2,567

(Continued)

Future amounts required to pay principal and interest on other debt instruments at June 30, 2002 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:	$			
2003		1,301	164	1,465
2004		1,266	54	1,320
Total	$	2,567	218	2,785

Details of other debt instruments are as follows:

State Building Services – Act 458 of 1983 authorized State Building Services to issue certificates of indebtedness designated as State Building Services Certification of Indebtedness. These certificates of indebtedness are special obligations secured solely by a lien on and pledge of specific pledged revenues. The Act limited the total principal amount to $25 million. The proceeds of the sale of certificates of indebtedness were used to construct facilities for the Department of Corrections and to construct and equip facilities at State supported institutions of higher education. Debt service requirements are met by certain pledged revenues.

Department of Education – Act 384 of 1953 authorized the Department of Education to issue certificates of participation designated as Department of Education Certificates of Participation. These certificates of participation are special obligations secured by certain school districts' certificates of indebtedness of $8,019,968. As a result of a number of school districts having paid their obligation before maturity dates, the State Board of Education has called $1,891,907 in certificates of participation that were used by the revolving loan program for loans to the school districts.

Notes Payable to Component Units – Notes payable to component units consist of notes issued to ADFA for construction and renovation of various State agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

(Continued)

Future amounts required to pay principal and interest on notes payable to component units at June 30, 2002 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2003	$	3,414	3,133	6,547
2004		3,076	2,840	5,916
2005		3,191	2,727	5,918
2006		2,405	2,615	5,020
2007		2,517	2,500	5,017
2008-2012		14,645	10,422	25,067
2013-2017		18,711	6,126	24,837
2018-2022		6,855	1,920	8,775
2023-2027		3,011	984	3,995
2028-2032		2,176	173	2,349
Total	$	60,001	33,440	93,441

Notes Payable to Pension Trust Fund – The note payable to the pension trust fund consists of a note issued to the Arkansas Teacher's Retirement System from the Department of Education for a statewide computer system capable of linking all public school district systems and the Department of Education's computer system. The Act provides that interest for the loan(s) for this project shall be at the rate of eight percent (8%). The Agency borrowed $24,825 in nine (9) installments between November 24, 1992 and July 17, 1996, to fund the project. Accrued interest totaled $5,018 at June 30, 1997 and was paid on August 26, 1997.

The Agency signed a promissory note dated July 1, 1997, in which repayment of the loan was scheduled to begin on June 30, 1998 with an annual payment of $2,900. These annual payments are to continue for fourteen (14) years. A final payment of the unpaid principal and accrued interest is to be made on June 30, 2012. The Agency made its first annual payment on August 18, 1997.

(Continued)

Future amounts required to pay principal and interest on the note payable to the pension trust fund at June 30, 2002 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2003	$ 1,343	1,557	2,900
2004	1,451	1,449	2,900
2005	1,567	1,333	2,900
2006	1,692	1,208	2,900
2007	1,828	1,072	2,900
2008-2012	11,580	2,922	14,502
Total	$ 19,461	9,541	29,002

Business-Type Activities

Special obligation bonds outstanding at June 30, 2002, issued pursuant to specific statutory provisions enacted by the legislature and paid from specifically dedicated fees and other revenues generated by a particular program and do not constitute general debt of the state were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %	Balance
Construction Assistance Revolving Loan Fund	2022	4.5 – 6.3	$ 108,115
War Memorial Stadium Commission Revenue Improvement Bonds – 1999 Series	2004	5.0	1,835
Total			$ 109,950

Details of the Special Obligation Bonds outstanding are as follows:

Construction Assistance Revolving Loan Fund (the Fund) – ADFA issues special obligation bonds on behalf of the Fund. The Fund uses the proceeds to support operations. The Fund is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Fund. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or redemption price of or interest on the bonds.

(Continued)

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2002 were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined statement of net assets due to unamortized discounts of approximately $1,455:

		Principal	Interest	Total
Year ending June 30:	$			
2003		4,840	5,253	10,093
2004		5,070	5,030	10,100
2005		5,345	4,792	10,137
2006		5,665	4,537	10,202
2007		5,985	4,262	10,247
2008-2012		35,005	16,730	51,735
2013-2017		35,880	7,284	43,164
2018-2022		10,325	1,137	11,462
Total	$	108,115	49,025	157,140

War Memorial Stadium Commission – The War Memorial Stadium Commission Stadium Improvement Revenue Bonds Series 1999, dated December 15, 1999, in the amount of $3.5 million were issued under the provisions of Amendment 65 to the Constitution of the State of Arkansas and Arkansas Code

Annotated Sections 22-3-1001 et seq. for the purpose of financing the cost of acquiring, constructing, and equipment betterments and improvements to War Memorial Stadium located in Little Rock, Arkansas, and paying costs of issuing the bonds. The bonds which bear an interest rate of 5% and mature in 2004 are payable from net revenues derived by the Commission from the operation of the Stadium.

		Principal	Interest	Total
Year ending June 30:				
2003	$	895	69	964
2004		940	24	964
Total	$	1,835	93	1,928

Higher Education Fund

Colleges and Universities – The boards of trustees of State-sponsored colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings, and the acquisition of furnishings or equipment for any such buildings of all State colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

(Continued)

At June 30, 2002, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Henderson State University	2024	3.00 – 6.00	$	18,521
Southern Arkansas University – Magnolia	2027	2.85 – 5.35		6,970
Southern Arkansas University Tech – Camden	2015	2.05 – 5.54		1,168
Arkansas State University – Beebe	2023	3.00 – 6.61		4,940
Arkansas State University – Jonesboro	2031	3.00 – 5.88		53,490
Arkansas State University – Mountain Home	2019	4.80 – 5.38		7,060
Arkansas Tech University	2031	3.75 – 6.375		20,725
University of Arkansas at Fayetteville	2023	Variable		130,047
University of Arkansas at Little Rock	2015	3.00 – 6.50		28,841
University of Arkansas for Medical Sciences	2019	1.18 – 5.05		79,340
University of Arkansas at Monticello	2018	Variable		5,660
University of Arkansas at Pine Bluff	2027	Variable		11,486
University of Central Arkansas	2031	3.50 – 7.75		48,989
University of Arkansas at Hope Community College	2021	2.05 – 5.75		7,465
University of Arkansas Community College at Batesville	2018	Variable		4,300
University of Arkansas at Morrilton	2022	4.88 – 4.90		5,330
University of Arkansas at Fort Smith	2021	4.00		42,234
East Arkansas Community College	2013	3.50 – 6.00		1,475
Garland County Community College	2017	3.50 – 4.50		3,395
Mid-South Technical College	2019	4.40 –5.36		9,665
Mississippi County Community College	2031	4.00 – 5.30		5,260
North Arkansas Community Technical College	2016	4.30 – 6.00		2,701
Phillips Community College of the University of Arkansas	2018	3.90 – 5.00		5,725
Rich Mountain Community College	2022	2.25 – 5.00		2,000
Northwest Arkansas Community College	2020	4.80 – 5.85		9,683
Cossatot Technical College	2005	5.44 – 11.00		96
Pulaski Technical College	2021	Variable		8,930
South Arkansas Community College	2012	6.37		173
Ozarka College	2011	7.24		173
Total			$	525,842

(Continued)

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 2002 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2003	$	29,522	22,914	52,436
2004		23,807	21,940	45,747
2005		24,457	20,925	45,382
2006		24,824	19,910	44,734
2007		24,574	18,899	43,473
2008-2012		135,642	76,898	212,540
2013–2017		117,930	49,522	167,452
2018–2022		109,756	22,625	132,381
2023–2027		25,882	6,576	32,458
2028–2032		9,448	1,393	10,841
Total	$	525,842	261,602	787,444

Component Units

Arkansas Student Loan Authority – Revenue bonds are issued by ASLA pursuant to Act 873 of 1977 to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. Revenue bonds do not constitute general debt of the State.

(Continued)

Revenue bonds outstanding at June 30, 2002 were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Student Loan Revenue Bonds, Series 1992A-1	2006	5.95-6.40	$	14,840
Student Loan Revenue Bonds, Series 1992A-2	2006	6.75		2,120
Student Loan Revenue Bonds, Series 1993A-1	2006	5.75-6.125		1,430
Student Loan Revenue Bonds, Series 1994A	2009	Adjustable		53,400
Student Loan Revenue Bonds, Series 1994B	2009	7.25		6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	Adjustable		42,900
Student Loan Revenue Refunding Bonds, Series 1996B	2010	6.25		14,000
Student Loan Revenue Bonds, Series 1997A	2014	Adjustable		31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	5.10-5.60		17,400
Student Loan Revenue Refunding Bonds, Series 2000A-1	2030	Adjustable		55,000
Student Loan Revenue Refunding Bonds, Series 2000A-2	2030	Adjustable		20,000
Student Loan Revenue Refunding Bonds, Series 2002A-1	2036	Adjustable		56,000
Student Loan Revenue Refunding Bonds, Series 2002A-2	2009	Adjustable		5,800
Total			$	320,640

(Continued)

Future amounts required to pay principal and interest on revenue bonds at June 30, 2002 were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2003	$	6,860	12,389	19,249
2004		3,620	12,117	15,737
2005		2,400	12,117	14,517
2006		20,660	12,115	32,775
2007			11,378	11,378
2008-2012		119,700	26,109	145,809
2013-2017		48,550	21,009	69,559
2018-2022			18,009	18,009
2023-2027			18,009	18,009
2028-2032		70,000	14,809	84,809
2033-2037		48,850	9,009	57,859
Total	$	320,640	167,070	487,710

Revenue Bonds are reflected in the financial statements net of discounts of approximately $15 thousand.

Arkansas Development Finance Authority – Pursuant to Act 1062, ADFA is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments, and industrial enterprises.

Bonds and other debt instruments issued by ADFA are special obligations of ADFA payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. ADFA has no taxing power.

(Continued)

Bonds payable at June 30, 2002 were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Single Family Bonds Payable	2032	2.73-10.00	$	921,323
Multi-Family Bonds Payable	2027	2.40-9.75		168,947
Development Finance Programs Bonds Payable	2029	2.35-10.00		273,834
Tobacco Bond Payable	2041	2.80-5.50		60,000
General Fund Note Payable	2002	1.81-3.98		6,000
Total			$	1,430,104

Future amounts required to pay principal and interest on ADFA debt at June 30, 2002 were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of approximately $1,962:

	Principal	Interest	Total
Year ending June 30:			
2003	$ 101,048	82,107	183,155
2004	49,122	78,485	127,607
2005	50,678	75,378	126,056
2006	51,718	72,094	123,812
2007	52,394	68,729	121,123
2008-2012	258,540	288,753	547,293
2013-2017	252,713	220,564	473,277
2018-2022	217,723	159,149	376,872
2023-2027	216,729	93,583	310,312
2028-2032	157,290	30,390	187,680
2033-2037	20,225	2,863	23,088
2038-2042	3,886	531	4,417
Total	$ 1,432,066	1,172,626	2,604,692

Prior Defeasances

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $42 million are considered defeased at June 30, 2002.

(Continued)

Current Refundings

Primary Government

During fiscal year 2002, the State issued (expressed in thousands) $45,145 of general obligation bonds to redeem $53,240 of outstanding bonds of the Soil and Water Commission resulting in an economic gain of approximately $4,325 and a reduction of approximately $14,960 in future debt service. The bonds bear interest at rates ranging from 2%-6.3% and mature in 2011-2026.

On December 1, 2001, the University of Arkansas at Fort Smith issued $41,500 of student fee revenue bonds, due December 1, 2021, with interest rates ranging from 2.0% to 5.0% to defease the Series 1997 and Series 1999 bond issues and for construction. A portion of the proceeds on new student fee revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Institution's financial statements. The final call date of the defeased bonds is April 1, 2009. As of June 30, 2002, the escrow fund established to provide the retirement of the bonds being refunded had a balance of $35,610. The remaining principal amount of the outstanding bonds considered defeased was $34,380.

Component Units

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $55 million are considered defeased at June 30, 2002.

(10) Leases

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses over the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee. Capital leases in the government-wide and proprietary fund statements are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported as other financing sources and expenditures.

The State also has direct-financing lease agreements with ADFA. These leases and the related assets are reported separately from other capital leases in the government-wide financial statements.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered noncancelable for financial reporting purposes.

(Continued)

The assets acquired through capital leases (expressed in thousands) are as follows:

	Governmental activities	Business-type activities	Higher Education Fund	Workers' Compensation Commission
Assets:				
Buildings	$ 62,012,107	4,347,224	1,495,000	2,852,224
Machinery and equipment	1,097,708	10,776,568	10,776,568	
Less accumulated depreciation	(17,586,066)	(4,607,099)	(4,078,807)	(528,292)
Total	$ 45,523,749	10,516,693	8,192,761	2,323,932

Future minimum commitments under operating and capital leases by fund type as of June 30, 2002 were as follows (expressed in thousands):

	Capital leases		
	Governmental activities	Business-type activities	Higher Education Fund
Year ending June 30:	$		
2003	4,307	3,254	3,254
2004	3,823	2,850	2,850
2005	3,458	2,192	2,192
2006	2,865	1,124	1,124
2007	3,628	482	482
2008-2012	2,904	196	196
Total minimum lease payments	20,985	10,098	10,098
Less interest	4,141	177	177
Present value of future minimum lease payments	$ 16,844	9,921	9,921

(Continued)

	Capital leases with component unit			
	Governmental activities	Business-type activities	Higher Education Fund	Workers' Compensation Commission
Year ending June 30:				
2003	$ 8,968	398	157	241
2004	9,436	399	155	244
2005	9,431	398	157	241
2006	9,425	402	159	243
2007	9,558	400	155	245
2008-2012	35,570	1,204		1,204
2013-2017	13,692	243		243
2018-2022	4,329			
Total minimum lease payments	100,409	3,444	783	2,661
Less interest	23,226	870	134	736
Present value of future minimum lease payments	$ 77,183	2,574	649	1,925

	Operating leases			
	Governmental activities	Business-type activities	Higher Education Fund	Non-major enterprise funds
Year ending June 30:	$			
2003	16,166	5,343	4,290	1,053
2004	10,468	3,229	2,616	613
2005	5,790	2,228	1,780	448
2006	3,479	1,068	942	126
2007	1,249	675	675	
2008-2012	2,817	110	110	
2013-2017	398			
2018-2022	243			
2023-2027	3,348			
Total minimum lease payments	$ 43,958	12,653	10,413	2,240
Total rental expenditure / expense (2002)	$ 12,654	5,231	5,029	202

(Continued)

(11) Fund Balances/Net Assets

(a) Deficit Net Assets

The WCC had a $10.5 million deficit in net assets as of June 30, 2002. The deficit was primarily generated by a change in actuarial assumptions during the fiscal year ended June 30, 1997. If the deficit is not eliminated by normal operations, WCC has the ability to seek legislation to 1) increase Workers' Compensation Tax Premiums, or 2) increase the threshold of claims submitted to WCC. WCC has the ability to change its investment strategy to receive larger returns on its investments without legislation.

(12) Pensions

(a) Plan Descriptions

The State contributed to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan (Judicial), Arkansas Highway and Transportation Retirement Plan (Highway), and Arkansas State Police Retirement System (State Police). State Police and Judicial are administered by APERS. Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Judicial Retirement Plan	Arkansas Highway and Transportation Retirement Plan	Arkansas State Police Retirement Plan
One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855	P.O. Box 2261 Little Rock, AR 72203 (501) 569-2000	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

The State sponsors two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System board of trustees, and APERS, administered by the Arkansas Public Employees Retirement System board of trustees, which provide retirement, disability and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by state statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan	Arkansas Public Employees Retirement Plan
1400 West Third Street Little Rock, AR 72201 (501) 682-1517	One Union National Plaza 124 W. Capital, 5th Floor Little Rock, AR 72201 (501) 682-7855

(Continued)

For the year ended June 30, 2002, the payroll of the State employees covered by the pension plans was approximately $925 million.

(b) Funding Policies

State statute establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

	Teacher	APERS	Highway	State Police	Judicial
Number of participating employers/contributing entities	423	715	1	1	1
Contribution rates for the fiscal year ended June 30, 2002 (% of covered payroll):					
State	12.00%	10.00%	12.90%	22.00%	12.00%
Plan members – contributory plans	6.00%	6.00%	6.00%		5.0% & 6.00%
Annual pension cost (in thousands)	191,353	107,189	15,013	5,905	3,644
Contributions made (in thousands)	191,353	107,189	15,013	5,881	2,415

The required contribution amounts (expressed in thousands) and the percentage contributed for Teacher and APERS for the current year and each of the two preceding years are as follows:

Fiscal year	Plan	Annual required contribution	Percentage contributed
2002	Teacher	$ 191,353	100%
	APERS	107,189	100%
2001	Teacher	181,116	100%
	APERS	100,926	100%
2000	Teacher	175,687	100%
	APERS	96,349	100%

(Continued)

State Police and APERS consist of both a contributory plan, which has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978; and a noncontributory plan, which was created by Act 793 of 1977 and was effective January 1, 1978. The noncontributory plan applies automatically to all persons hired January 1, 1978 or later. All nonretired members of the State Police are now covered by noncontributory benefits. Members of the Teacher plan contribute 6% of their salaries, except for members who became members before July 1, 1971, who can contribute only on the first $7,800 of their annual salary; and effective July 1, 1993, all new members, including any former active members, were automatically enrolled as noncontributory members. By individual election, members of the Teacher plan may choose to contribute. Active members of the Judicial plan contribute 5% and 6% of their salaries. Members of the Judicial plan with 20 or more years of service and members age 65 or older with 10 or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

The Teacher, Highway, and Judicial plans did not have any investments of any commercial or industrial organization whose market value equals 5% or more of the individual plan's net assets available for benefits.

The State's 2002 contribution to APERS represented 100% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation (asset) to Judicial and State Police for the current year is as follows (in thousands):

	Judicial	State Police
Annual required contribution (ARC)	$ 3,414	5,881
Interest on net pension obligation	979	251
Adjustment to annual required contribution	(749)	(226)
Annual pension cost	3,644	5,906
Contributions made	2,415	6,935
Change in net pension obligation	1,229	(1,029)
Net pension obligation (asset), beginning of year	(9,985)	3,238
Net pension obligation (asset), end of year	$ (8,756)	2,209

The net pension obligation (asset) for State Police and Judicial, respectively, is recorded in the governmental activities column in the government-wide financial statements.

No pension liability exists for Highway, Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 2002 was equal to the ARC.

(Continued)

Three-year trend information for the single-employer plans (expressed in thousands) is as follows:

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
Judicial	6/30/2002	$ 3,644	91.08%	$ (8,756)
	6/30/2001	4,653	87.62%	(9,985)
	6/30/2000	3,126	101.86%	(10,561)
State Police	6/30/2002	5,906	118.00%	2,209
	6/30/2001	5,752	123.52%	3,238
	6/30/2000	6,447	109.59%	4,591
Highway	6/30/2002	15,013	100.00%	
	6/30/2001	14,395	100.00%	
	6/30/2000	13,948	100.00%	

(c) Higher Education

All active higher education employees who work 20 or more hours a week have the option of participating in either APERS, Teacher, or the Teachers Insurance Annuity Association – College Retirement Equities Fund (TIAA-CREF), or the Fidelity Fund.

TIAA-CREF and the Fidelity Fund were established by the board of trustees of each respective college or university. These funds represent a defined contribution plan as set forth in Section 403(b) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Each college or university contributes a percentage of an employee's salary ranging from 5% to 10%, to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2002, total employer contributions to TIAA-CREF and Fidelity were $48.8 million and $8.5 million, respectively. Employee contributions to TIAA-CREF and Fidelity were $42 million and $8 million, respectively.

(Continued)

(13) Additional Information – Enterprise Funds

The State of Arkansas issued special obligation bonds to finance the lending program and operations of the Construction Assistance Revolving Loan Program and construction and renovations of the War Memorial Stadium.

The Construction Assistance Revolving Loan Program was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities.

War Memorial Stadium is an outdoor athletic stadium used for athletic events, concerts, and other functions requiring large seating facilities.

(a) Condensed Statement of Net Assets

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund
Assets		
Current assets	$ 1,492	275,422
Due from other funds	150	
Noncurrent assets	54	
Capital assets	9,992	
Total assets	$ 11,688	275,422
Liabilities		
Current liabilities	$ 947	8,655
Noncurrent liabilities	1,100	101,820
Total liabilities	2,047	110,475
Net Assets		
Invested in capital assets net of related debt	8,157	
Restricted	1,254	164,947
Unrestricted	230	
Total net assets	$ 9,641	164,947

(Continued)

(b) Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund
Charges for sales and services (pledged against bonds)	$ 1,365	
Investment earnings (pledged against bonds)		10,660
Miscellaneous	22	(430)
Depreciation expense	(307)	
Amortization expense		(286)
Other operating expense	(1,200)	(6,745)
Operating income	(120)	3,199
Nonoperating revenue/expenses:		
Investment earnings	6	
Taxes	745	
Interest and amortization expense	(116)	
Capital grants and contributions		15,836
Nonoperating revenue/expenses	635	15,836
Total net assets, beginning of year	9,126	145,912
Total net assets, end of year	$ 9,641	164,947

(c) Condensed Statement of Cash Flows

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund
Net cash provided (used) by:		
Operating activities	$ 27	3,554
Noncapital financing activities	745	15,836
Capital and related financing activities	(2,613)	(41,883)
Investing activities	(749)	3,380
Net increase (decrease)	(2,590)	19,113
Cash and cash equivalents, beginning	3,260	41,602
Cash and cash equivalents, end	$ 670	22,489

(Continued)

(14) Risk Management Program

The following describes the risk management programs administered by the State.

(a) Health and Life Plans

As required by A.C.A. § 21-5-405, the State and Public School Life and Health Insurance Board and the Executive Director take a risk management approach in designing the state employee and public school employee health benefit programs. In addition, the Board ensures that the state and public school employee health benefit programs are maintained on an actuarially sound basis as determined by actuarial standards established by the Board. Not included in this service are most higher education, state police, and some portion of the states vocational and technical schools.

The Board provides the following employee benefits to state employees: comprehensive major medical that also includes basic dental, vision, and mental health parity; prescription drug benefits; basic and supplemental group term life insurance; a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account; and a deferred compensation plan with the option to participate in one or both of the deferred compensation companies. The State employees are self-insured for medical health, group term life insurance, and pharmacy claims. Beginning January 1, 2002, the State became self-insured for the mental health and continued to provide a fully funded mental health parity benefit.

Public school employees are offered the comprehensive major medical plan (excluding basic vision and dental benefits) including a mental health parity benefit; prescription drug benefits; and the basic and supplemental group term life insurance program. Each school district obtains its own cafeteria plan and any other benefits that are offered to public school employees by their school districts. The public school group is fully insured for the medical, mental health benefits, and group term life insurance and is self-insured for pharmacy claims.

Basic group term life insurance and accidental death and dismemberment coverage is offered to all state and public school employees. The basic life insurance premium for active state employees is paid from the insurance trust fund. The basic life insurance premium for public school employees is $0.65 per month and is contingent upon health plan participants. Supplemental coverage is offered to both state and public school employees. Supplemental life insurance premiums are bracketed by age, annual salary, and amount of coverage for both state and public school employees contingent upon health plan participants. The state and public school employee may also purchase dependent coverage.

(Continued)

Claim liabilities for the runout of self-insured medical health insurance plans and the prescription drug plan for state and public school employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year are as follows (expressed in thousands):

		2002	2001
Claim liability, beginning of year	$	3,800	21,023
Incurred claims		116,118	86,756
Claims payments		(102,118)	(103,979)
Claim liability, end of year	$	17,800	3,800

The plans have not purchased any annuity contracts on behalf of claimants.

(b) Risk Management Office

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those state buildings covered by commercial insurance, the building and contents are generally insured for the full amount of losses subject to varying deductible amounts up to $25 thousand per occurrence. Arkansas State University has a $100,000 deductible. The University of Arkansas system has its own program that the State Risk Management Office does not oversee. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's value. Due to market conditions, very limited availability and excessive cost, total earthquake coverage is limited to $110 million, with further limit restrictions in the eastern high hazard zones. In addition to these limitations on earthquake coverage, the State no longer has domestic or foreign terrorism insurance coverage due to excessive cost and limited coverage. Certain state agencies have chosen not to purchase commercial insurance on certain buildings and, as such, losses are recorded as expenditures in the General Fund when paid.

The State does not purchase liability insurance coverage for claims arising from third-party losses on State property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those State vehicles covered by commercial insurance, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to $100 thousand per occurrence in state and $500 thousand per occurrence out of state. Certain state agencies have elected not to purchase commercial insurance for certain vehicles and losses on such vehicles are recorded as expenditures in the General Fund as paid. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

(Continued)

There have been no instances in the past three fiscal years wherein the amount of settlements has exceeded insurance coverage. If a court awarded an amount in excess of policy limits, then a claim would have to be directed to the State Claims Commission. No liability has been recorded in the financial statements.

(c) State Claims Commission

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law, and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to $7.5 thousand without further approval, while amounts exceeding $7.5 thousand must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the General Fund.

(d) State Workers' Compensation Plans

The State's Workers' Compensation Program (the Program) was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of state sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each state agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at June 30, 2002, including claims incurred but not reported, is estimated to be approximately $59.7 million.

The State provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by state law and is known as the Death & Permanent Total Disability Trust Fund (Disability Trust Fund). The Disability Trust Fund pays wage loss benefits in excess of $75 thousand per case. The employer's primary insurer is responsible for the first $75 thousand per case. The Disability Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The liability of the Disability Trust Fund at June 30, 2002 is based on actuarial estimates of ultimate claim costs for both reported and unreported claims, discounted at 5% and is recorded in the Workers' Compensation Commission Enterprise Fund.

The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund was created to encourage employment of disabled workers by limiting in the event of subsequent injury, the employer's liability for permanent disability benefits. The employee is to be fully protected in that the Second Injury Trust Fund pays the worker the difference between the employer's liability and the balance of his disability or impairment, which resulted from

(Continued)

all disabilities or impairments combined. The Second Injury Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the state and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

The Disability Trust Fund and the Second Injury Trust Fund are administered by the Workers' Compensation Commission. Changes in the combined balance of the Disability Trust Fund and Second Injury Trust Fund during the current fiscal year are as follows (expressed in thousands):

		2002	2001
Claim liability, beginning of year	$	173,736	170,202
Incurred claims		17,544	14,621
Claims payments		(11,048)	(11,087)
Claim liability, end of year	$	180,232	173,736

(e) Petroleum Storage Tank Trust Fund

The Petroleum Storage Tank Trust Fund (Storage Tank Fund) was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain other requirements at the time of the release. The Storage Tank Fund will reimburse tank owners for corrective action up to $1 million per occurrence with a $7.5 thousand deductible as well as third-party property claims or bodily injury claims for damages up to $1 million per occurrence, also with a $7.5 thousand deductible. The Storage Tank Fund is funded by an environmental assurance fee of two-tenths of one dollar for each gallon of fuel, collected at the wholesale level. The first-party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third-party claim liability is estimated at the plan limits for each third-party claim filed until actual damages are determined and the liability is recorded in the governmental activities.

Changes in the balance of the Storage Tank Fund claim liability during the current fiscal year are as follows (expressed in thousands):

		2002	2001
Claim liability, beginning of year	$	18,758	10,860
Incurred claims		982	12,059
Claims payments		(4,090)	(4,161)
Claim liability, end of year	$	15,650	18,758

(Continued)

(f) Higher Education Health Plans

The University of Arkansas System (UA System) and Arkansas State University (ASU) sponsor self-funded health plans for employees and their eligible dependents. Within the UA System, five four-year institutions and one two-year institution participate in the health insurance programs, along with the UA System's divisions of Criminal Justice Institute, Arkansas Archeological Survey, Division of Agriculture, System Administration, and the University of Arkansas Foundation. Also, all ASU campuses participate in the health insurance programs, which are administered by third parties and that are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full-time active employees, while retires and former employees participate on a fully contributory basis.

Changes in the balance of the UA System and ASU claim liability during the current fiscal year are as follows (expressed in thousands):

		2002	2001
Claim liability, beginning of year	$	11,525	13,548
Incurred claims		62,019	51,182
Claims payments		(62,819)	(53,205)
Claim liability, end of year	$	10,725	11,525

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangement, the reinsurance carrier pays for claims for covered individuals that exceed specified limits. Such limits are $250 thousand and $125 thousand for the UA System and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

(Continued)

(15) Commitments and Contingencies

Primary Government

(a) Litigation

The State, its agencies, and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, and other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of state law, and other alleged violations of state and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of $18 million for the payment of such claims. For other cases which it is reasonably possible that a loss will be incurred on the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately $13.6 million (amounts in thousands).

		2002	2001
Litigation, beginning of year	$	14,150	4,500
Incurred litigation		4,832	10,505
Litigation payments		(855)	(855)
Litigation, end of year	$	18,127	14,150

On November 21, 2002, the Arkansas Supreme Court affirmed a lower court ruling that the current Arkansas school-funding system is unconstitutional. The Court concluded that "the State has not fulfilled constitutional duty to provide the children of this state with a general, suitable, and efficient school-funding system." The State has accrued approximately $3.4 million in attorney's fees related to this case which are required to be paid to the plaintiff's attorneys. In addition, although not yet determinable, future appropriations required to comply with this ruling are expected to be material to the State's financial statements.

It is not possible to predict with certainty or exactitude the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's financial position except as noted above.

(b) Federal Grants

The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulation, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At

(Continued)

June 30, 2002, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

(c) Loan Forgiveness

Under the provisions of the Pulaski County Desegregation Settlement Agreement, the State agreed to provide loans to the Little Rock School District (LRSD). If the composite test scores of the LRSD minority students reach a specified level before December 1, 2001, any outstanding loan balance will be forgiven. The standards by which the test scores will be measured has yet to be determined by the parties. As of June 30, 2002, the State's loan receivable is $5 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2002, the State has commitments of approximately $417.1 million for construction and other contracts. The Soil and Water Conservation Commission has approved $31.1 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2002.

(e) Bond Guarantees

The AEDC Bond Reserve Guaranty Fund is used to guarantee principal and interest on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2002, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $41.1 million. In addition, AEDC has committed to guarantee approximately $6.9 million in industrial development revenue bonds that have not closed at June 30, 2002.

(f) Tobacco Settlement

In November 1998, the Attorney General joined 45 other states and five territories in a settlement with the nation's largest tobacco manufacturers. The settlement includes base payments to states totaling $220.6 billion over the next 25 years, and continues in perpetuity. All disbursements from the Master Settlement Agreement were initially deposited to the Tobacco Settlement Cash Holding Fund. In 2001, funds were distributed to the Arkansas Healthy Century Trust Fund, treasury fund (TSA), in the amount needed to bring the principal balance to $100,000,000, and the remainder was distributed to the Tobacco Settlement Program Fund, treasury fund (TSB). For 2002 and thereafter, the first $5,000,000 shall be distributed to the Tobacco Settlement Debt Service Fund, and the amounts remaining shall be distributed to the Tobacco Settlement Program Fund, treasury fund (TSB). While Arkansas' share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear; therefore, the financial statements only reflect amounts that can be reasonably estimated.

(Continued)

(16) Subsequent Events

(a) Primary Government

In July 2002, the Arkansas Highway and Transportation Department issued, on behalf of the State, Federal Highway, Grant Anticipation and Tax Revenue Bonds in the amount of $215 million. The bonds are to provide financing for the cost of constructing and renovating improvements to interstate highways and related facilities in the State.

Soil and Water Commission

On August 28, 2002, $5,000 in bonds dated August 1, 2002 was sold for $4,958 with interest rates ranging from 2.85% to 4.95%. The proceeds from the sale of these bonds were used to finance the development of water, waste disposal, pollution abatement, irrigation, drainage and flood control and/or wetland preservation facilities projects throughout the State. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

On September 24, 2002, $2,140 in bonds dated September 1, 2002 was sold for $2,141 with interest rates ranging from 4.50% to 5.35%. The proceeds from the sale of these bonds were used to provide financing for the refunding of a portion of the State of Arkansas Water Resources Development General Obligation Bonds, Series 1997B. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

On September 24, 2002, $11,205 in bonds dated September 1, 2002 was sold for $11,095 with interest rates ranging from 3.00% to 4.75%. The proceeds from the sale of these bonds were used to provide financing for the refunding of a portion of the State of Arkansas Water Resources Development General Obligation Bonds, Series 1997B. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

On September 27, 2002, $4,020 in bonds dated September 27, 2002 was sold for $4,020 with an interest rate of 3.00%. The proceeds from the sale of these bonds were used to finance the development of water, waste disposal, pollution abatement, irrigation, drainage and flood control and/or wetland preservation facilities projects throughout the State. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

Transportation Department

The Claims Commission awarded $6.5 million to a child injured by a blade on a mower which was being operated by Transportation Department employees. The General Assembly enacted a bill authorizing payment subsequent to year end which is pending a vote.

Higher Education

(i) **Arkansas State University** – On August 12, 2002, the University executed a credit agreement with a local bank to provide funding for acquisitions of land and property contiguous to the Jonesboro campus. The agreement provides the University with funding not to exceed $6,000. The University has executed one note under this agreement of $577. Also, on December 1, 2002, the University issued refunding bonds of $6,105.

(ii) **North Arkansas College** – The Institution entered into a lease-purchase agreement with Bank of America, dated September 30, 2002, in the amount of $536, to finance a contract with Carrier Corporation for "Lighting Retrofit, HVAC Replacement and Energy Management System for HVAC Units." The agreement calls for twenty semi-annual payments of $32 beginning on October 1, 2002. Scheduled payoff date is October 1, 2012.

(iii) **Northwest Arkansas Community College** – Subsequent to June 30, 2002, the Institution issued bonds in the amount of $4,065 to refinance debt.

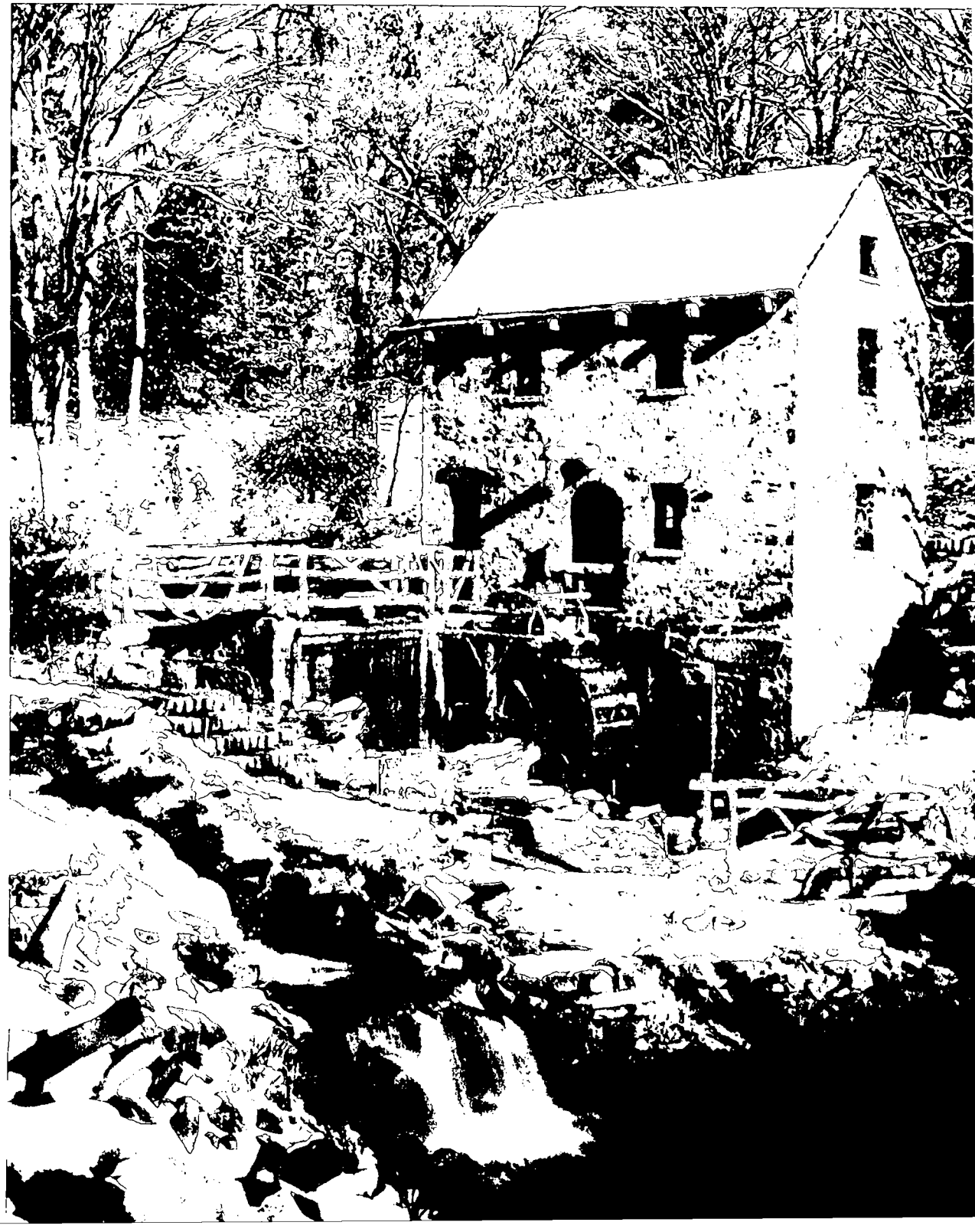
(iv) **Ozarka College** – On November 19, 2002, the College sold construction bonds of $2,800. The projected closing date for this bond issue is December 12, 2002.

(b) Component Units

Subsequent to June 30, 2002, ADFA issued approximately $40 million in special obligation bonds in the Single-Family Housing Program Fund.

ARKANSAS

REQUIRED SUPPLEMENTARY INFORMATION



STATE OF ARKANSAS

Required Supplementary Information

Schedule of Funding Progress

(Expressed in thousands)

Plan	Fiscal year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Teacher	2002	6/30/2002	$ 8,328,000	9,062,000	734,000	91.9%	$ 1,628,000	(45.1)%
	2001	6/30/2001	8,166,000	8,561,000	395,000	95.4%	1,557,000	(25.4)%
	2000	6/30/2000	7,620,000	7,899,000	279,000	96.5%	1,485,000	(17.4)%
Public Employees	2002	6/30/2002	4,404,000	4,398,000	(6,000)	100.1%	1,091,000	(0.0)%
	2001	6/30/2001	4,342,000	4,111,000	(231,000)	105.6%	1,070,000	(21.6)%
	2000	6/30/2000	4,121,000	3,803,000	(318,000)	108.4%	1,050,000	(30.3)%
Highway	2002	6/30/2002	1,026,300	918,100	(108,200)	111.8%	113,500	(95.4)%
	2001	6/30/2001	971,569	860,314	(111,255)	112.9%	106,728	(104.2)%
	2000	6/30/2000	870,292	768,300	(101,992)	113.3%	104,572	(97.5)%
State Police	2002	6/30/2002	223,768	251,763	27,995	88.9%	20,756	(135.0)%
	2001	6/30/2001	229,921	242,355	12,434	94.9%	20,158	61.7%
	2000	6/30/2000	222,868	232,988	10,120	95.7%	20,452	49.5%
Judicial	2002	6/30/2002	124,212	124,734	522	99.6%	15,112	(3.5)%
	2001	6/30/2001	119,191	116,073	(3,118)	102.7%	14,869	(21.0)%
	2000	6/30/2000	107,059	83,211	(23,848)	128.7%	14,371	(165.9)%

See accompanying notes to the schedule of funding progress.

STATE OF ARKANSAS

Note to Schedule of Funding Progress

June 30, 2002

Actuarial Assumptions

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Teachers Retirement	Judicial	State Police	Highway	APERS
Actuarial valuation date	June 30, 2002	June 30, 2002	June 30, 2002	June 30, 2002	June 30, 2002
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Individual Entry Age Normal Cost
Amortization method	Level Percentage of Pay	Level Percentage of Pay, Closed	Level Percentage of Pay, Closed	Level Percentage of Pay, Closed	30-Year Open
Remaining amortization period	38 years	Tier I–30 years Tier II–15 years	20 years	0 years	(a), (b)
Asset valuation method	4-year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	5 Year Smoothed Market	4-Year Smoothed Market
Actuarial assumptions:					
Inflation rate	4.0%	4.0%	4.25%	4.5%	4.0%
Investment rate of return*	8.00%	7.0%	7.75%	8.0%	8.0%
Projected salary increases*	4.0 – 10.1%	2.6%	4.5% – 7.84%	5% – 11%	5% – 9%
Postretirement benefit increases	3%	(c)	3.0%	3.0%	3.0% annual compounded

*Includes assumed inflation.

(a) State and Local Government Employers (6-year open Contingency Reserve Amortization). No unfunded liability exists for the State and Local Government Employers.

(b) General Assembly Subdivision – 30-year open.

(c) Pre-July 1, 1983 hires increased or decreased as the salary for the particular Judicial office is increased or decreased. Post June 30, 1983 hires – 3%.

STATE OF ARKANSAS

Required Supplementary Information

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

June 30, 2002

(In thousands)

	Budgeted amounts		Actual amounts	Variance with final budget – positive (negative)
	Original	Final		
Revenues:*				
Taxes:				
Personal and corporate income	$		2,025,179	
Sales and use			1,685,490	
Motor fuels			445,348	
Others			1,070,776	
Total Intergovernmental			3,120,446	
Licenses, permits, and fees			475,371	
Investment earnings			55,848	
Miscellaneous			766,709	
Total revenues			9,645,167	9,645,167
Expenditures:**				
Current:				
General government	5,897,425	5,628,800	1,525,045	4,103,755
Education	2,473,320	2,488,352	2,260,476	227,876
Health and human resources	3,594,415	3,559,974	3,224,723	335,251
Law, justice, and public safety	598,874	605,358	431,892	173,466
Recreation and resource development	599,578	400,972	216,061	184,911
Labor, commerce, and regulatory	179,519	170,756	104,029	66,727
Transportation	1,435,402	725,681	280,146	445,535
Debt service	102,394	119,747	57,288	62,459
Capital outlay	382,153	863,893	747,348	116,545
Total expenditures	15,263,080	14,563,533	8,847,008	5,716,525
Excess (deficiency) of revenues over (under) expenditures	$ (15,263,080)	(14,563,533)	798,159	15,361,692

* Revenue is forecasted and not part of actual budget for the biennium and revised quarterly.

** Expenditures are appropriated, amounts blocked determined available budget. Blocking is revised quarterly to match the forecast revisions. Expenditures may not exceed the lesser of budget or funds available.

See accompanying notes to budgetary schedule.

(a) Budgetary Basis of Accounting

The State's budget is adopted in accordance with a statutory cash basis of accounting, which is not in accordance with GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multiyear projects.

(b) Budgetary Basis Reporting – Budgetary Process

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures, and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

The original appropriation may be adjusted by several items subsequent to the appropriation act. The adjustment items may be: Supplemental appropriations or subsequent legislative acts, revisions to the forecast of revenues, restrictions on spending by Executive Order, carryforward provisions and restrictions on spending by the General Assembly.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the biennial appropriation may be made via supplemental appropriation acts or other subsequent legislative acts. These also must be approved by the General Assembly and signed by the Governor and are subject to the line item veto.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the Stabilization Law) to provide an allotment process of funding appropriations in order to comply with the state law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific funds (i.e., general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department, and judges), their staffs, and the Department of Finance and Administration (DF&A). The balance, net of income tax refunds, court settlement arrangements, etc., is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DF&A and 1 ½ % of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs, and DF&A. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, "A," "B," and "C." Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies' funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

Each of these legally adopted internal funds are accounted for on the cash basis. All prior fiscal year unpaid bills or claims that did not have sufficient funds and appropriation at the end of the fiscal year may be submitted by the agency to the Claims Commission. Upon approval of the claims, funds are appropriated in the following biennium to allow for payment, unless the claims are approved during a special session of the legislature or in the case of small claims, upon the decision of the Claims Commission.

The majority of the State's appropriations are noncontinuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotment which restricts spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year.

DF&A has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation classification basis. Appropriation classifications are subdivisions of appropriations, which define the purposes for which the appropriation can be used, and restrict the amount of expenditures for the various classifications to amounts established in the appropriation acts. Appropriation classifications may include regular salaries, extra help, overtime, maintenance and general operation, personal services matching, conference and travel expenses, professional fees, capital outlay, data processing, grants assistance and special aid, construction and permanent improvements, and other special classifications. Budgetary control is maintained through the Arkansas Administrative Statewide Information System (AASIS). AASIS ensures that expenditures are not processed if they exceed the appropriation classification total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, the Arkansas Law authorizes DF&A to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

A report provides information at the individual appropriation line item level, which is the legal level of budgetary control, and is available from DF&A. For financial reporting, the State groups these appropriation account categories by function to conform to its organization structure.

STATE OF ARKANSAS

Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

June 30, 2002

The Department of Finance and Administration monitors the State's spending against its budget utilizing the Arkansas Administrative Statewide Information System (AASIS). AASIS was designed with internal controls to prohibit state agency spending from exceeding its budget. Budget is the undeferred and funded appropriations enacted by the Arkansas State Legislature. Budget is controlled at the appropriation line item (Commitment Item), which is the legal level of budgetary control. For financial reporting, the State groups State agencies and their appropriations into functional categories.

The following is a reconciliation of the statutory cash basis revenues and other sources under expenditures and other uses of the General Fund to the GAAP basis excess of revenues and other sources over expenditures and other uses presented in the financial statements (expressed in thousands):

Revenues over expenditures (statutory basis)	$	798,159
Nonappropriated excess of revenues and other sources over expenditures and other uses		(35,913)
Basis of accounting differences		(452,388)
Excess of revenues over expenditures (GAAP basis)	$	309,858

GREAT SEAL OF THE STATE OF ARKANSAS

ARKANSAS

COMBINING FINANCIAL STATEMENTS

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
REGNAT POPULUS
REGNAT POPULUS

NON-MAJOR ENTERPRISE FUNDS

The enterprise funds are used to account for operations of those state agencies and/or programs providing goods or services to the general public or a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The non-major enterprise funds consist of the following:

Employment Security Department – This department is responsible for promoting employment security in the State of Arkansas by administering federally assisted programs that provide employment, placement, and training services through local public employment offices within the state and for administering the State of Arkansas Unemployment Insurance Program.

War Memorial Stadium Commission – This agency has exclusive jurisdiction for the operation of the facility known as War Memorial Stadium, which is for the use of all the schools, colleges, and universities of the state under the supervision of the agency.

Construction Assistance Revolving Loan Fund – This program is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities.

Other Revolving Loan Funds – These programs are responsible for providing a perpetual fund for financing the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and the financing of capitalizable educational and general projects for community and technical colleges.

STATE OF ARKANSAS

Combining Statement of Net Assets

Nonmajor Proprietary Funds

As of June 30, 2002

(Expressed in thousands)

Assets	Business-type activities enterprise funds: Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Current assets:					
Cash and cash equivalents	$ 186,732	670	59,810	6,027	253,239
Receivables:					
Accounts	55,171	50	90	1,139	56,450
Loans			194,051	14,490	208,541
Interest			637	42	679
Other funds	1,289	150			1,439
Other governments	9,876				9,876
Investments	21,607	701	19,588		41,896
Other current assets		71	1,246		1,317
Total current assets	274,675	1,642	275,422	21,698	573,437
Noncurrent assets:					
Investments	1,668	54			1,722
Capital assets:					
Land	2,988				2,988
Buildings	3,744	13,740			17,484
Equipment	7,043	364			7,407
Improvement other than building	25				25
Leasehold improvements	245				245
Assets under construction	89				89
Other depreciable assets					
Less accumulated depreciation	(8,649)	(4,112)			(12,761)
Total noncurrent assets	7,153	10,046			17,199
Total assets	$ 281,828	11,688	275,422	21,698	590,636
Liabilities					
Current liabilities:					
Accounts payable	$ 89,692	45	289	1,411	91,437
Accrued and other current liabilities	539		442		981
Due to other funds	2,672				2,672
Due to other governments	1,741				1,741
Bonds payable		895	4,840		5,735
Compensated absences payable	241	7			248
Deferred revenue	1,688		3,084	552	5,324
Total current liabilities	96,573	947	8,655	1,963	108,138
Noncurrent liabilities:					
Workers' compensation benefits payable					
Capital leases					
Bonds payable		940	101,820		102,760
Compensated absences payable	1,611	50			1,661
Deferred revenue		110			110
Total noncurrent liabilities	1,611	1,100	101,820		104,531
Total liabilities	$ 98,184	2,047	110,475	1,963	212,669
Net assets:					
Invested in capital assets, net of related debt	$ 7,153	8,157			15,310
Restricted:					
Unemployment compensation	176,491				176,491
Debt service		457			457
Capital projects		797			797
Bond resolution and program			164,947		164,947
Program requirements				19,735	19,735
Unrestricted		230			230
Total net assets	$ 183,644	9,641	164,947	19,735	377,967

See accompanying independent auditors' report.

STATE OF ARKANSAS

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Nonmajor Proprietary Funds

Year Ended June 30, 2002

(Expressed in thousands)

	Business-type activities enterprise funds				
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Operating revenues:					
Charges for sales and services	$	1,365			1,365
Investment earnings			10,660		10,660
Miscellaneous	870	22	(430)		462
Total revenue	870	1,387	10,230		12,487
Operating expenses:					
Cost of sales and services		340			340
General and administrative expenses	6,724	94	1,253	1,760	9,831
Depreciation	473	307			780
Amortization			286		286
Interest			5,492		5,492
Compensation and benefits	28,680	389			29,069
Supplies and services	12,820	377			13,197
ESD benefits	431,137				431,137
Total operating expenses	479,834	1,507	7,031	1,760	490,132
Operating income (loss)	(478,964)	(120)	3,199	(1,760)	(477,645)
Nonoperating revenues (expenses):					
Investment earnings	17,977	6			17,983
Taxes	240,031	745			240,776
Insurance tax				618	618
Operating grants and contributions	160,833				160,833
Interest and amortization expense		(116)			(116)
Loss on sale of fixed assets	(87)				(87)
Other nonoperating revenue and expenses					
Total nonoperating revenues (expenses)	418,754	635		618	420,007
Income (loss) before transfers	(60,210)	515	3,199	(1,142)	(57,638)
Transfer from other fund					
Transfer to other funds	(757)				(757)
Capital grants and contributions			15,836	3,265	19,101
Change in net assets	(60,967)	515	19,035	2,123	(39,294)
Total net assets, beginning of year (as restated)	244,611	9,126	145,912	17,612	417,261
Total net assets, end of year	$ 183,644	9,641	164,947	19,735	377,967

See accompanying independent auditors' report.

STATE OF ARKANSAS

Combining Statement of Cash Flows

Nonmajor Proprietary Funds

Year Ended June 30, 2002

(Expressed in thousands)

	Business-type activities enterprise funds				
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Funds	Other Revolving Loan Funds	Total
Cash flows from operating activities:					
Cash received from customers	$	1,342			1,342
Cash received from other government agencies		149			149
Payments to employees	(27,926)	(294)			(28,220)
Payments of benefits	(416,742)				(416,742)
Payments to suppliers	(17,787)	(1,170)			(18,957)
Interest received (paid)			10,355		10,355
Loan administration received (paid)			(6,794)	(1,544)	(8,338)
Other receipts (payments)			(7)		(7)
Net cash provided by (used in) operating activities	(462,455)	27	3,554	(1,544)	(460,418)
Cash flows from noncapital financing activities:					
Gifts and grants			15,836	3,265	19,101
Net transfers to other funds	(757)				(757)
Taxes	229,468	745		618	230,831
Operating grants and contributions	161,151				161,151
Net cash provided by (used in) noncapital financing activities	389,862	745	15,836	3,883	410,326
Cash flows from capital and related financing activities:					
Principal paid on capital debts and leases		(855)	(41,883)		(42,738)
Interest paid on capital debts and leases		(117)			(117)
Acquisition and construction of capital assets	(414)	(1,641)			(2,055)
Proceeds from governmental sources				339	339
Proceeds from long-term borrowing			37,321		37,321
Net cash provided by (used in) capital and related financing activities	(414)	(2,613)	(4,562)	339	(7,250)
Cash flows from investing activities:					
Purchase of investments	(23,275)	(755)			(24,030)
Proceeds from sale and maturities of investments			17,660		17,660
Interest and dividends on investments	17,977	6			17,983
Loan disbursements			(23,589)	(4,412)	(28,001)
Loan repayments			9,309	100	9,409
Net cash provided by (used in) investing activities	(5,298)	(749)	3,380	(4,312)	(6,979)
Net increase (decrease) in cash and cash equivalents	(78,305)	(2,590)	18,208	(1,634)	(64,321)
Cash and cash equivalents, beginning	265,037	3,260	41,602	7,661	317,560
Cash and cash equivalents, ending	$ 186,732	670	59,810	6,027	253,239
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (478,964)	(120)	3,199	(1,760)	(477,645)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	473	307			780
Amortization			(84)	8	(76)
Net appreciation (depreciation) of investments			430		430
Net changes in assets and liabilities:					
Accounts receivable	(2,557)	(200)	57	(1,109)	(3,809)
Loans receivable					
Other current assets		9	307		316
Current liabilities		7	(40)		(33)
Accounts payable and other accrued liabilities	16,685		(315)	1,397	17,767
Compensated absences	220	20			240
Deferred revenue	1,688	4		(80)	1,612
Net cash provided by (used in) operating activities	$ (462,455)	27	3,554	(1,544)	(460,418)

See accompanying independent auditors' report.

TRUST AND AGENCY FUNDS

Trust and agency funds are used to account for assets held by the State in a fiduciary capacity or as an agent for individuals, private organizations, or other governments and/or funds. The trust and agency funds consist of the following:

Pension Trust Funds – These funds are accounted for in essentially the same manner as proprietary funds, and includes Judicial, Teacher, State Police, Highway, and APERS retirement plans.

Agency Funds – These funds are custodial in nature and do not involve measurement of operations. Included in these funds are assets held by the Insurance Department and various other state agencies.

STATE OF ARKANSAS

Combining Statement of Fiduciary Net Assets

Pension Trust Funds

June 30, 2002

(In thousands)

Assets	Teacher	APERS	Highway	State Police	Judicial	Total
Cash and cash equivalents	$ 307,075	266,615	67,239	5,912	18,233	665,074
Receivables:						
Employee	8,477					8,477
Employer	5,450	1,510	913	12		7,885
Interest and dividends	310,198	22,607	7,339	641	1,301	342,086
From other funds	19,461					19,461
Other		117,580	10	1,450		119,040
Investments at fair value:						
Bonds, notes, mortgages, and preferred stock	1,896,857	846,947	162,002	42,543	21,629	2,969,978
Common stock	2,766,375	1,177,917	358,923	62,075	44,130	4,409,420
Real estate	142,720	61,203				203,923
International investments	882,376	411,276		19,022		1,312,674
Mutual funds		255,878		11,863		267,741
Pooled investment funds				19,977		19,977
Corporate obligations		630,292	278,991	17,931	24,187	951,401
Asset backed securities	58,979	86,046		2,806	2,865	150,696
Other	1,060,047	166,731				1,226,778
Securities lending collateral	607,789	704,487		24,101		1,336,377
Fixed assets	974	98				1,072
Other assets	1,635	9				1,644
Total assets	8,068,413	4,749,196	875,417	208,333	112,345	14,013,704
Liabilities and Net Assets						
Liabilities:						
Accounts payable and other liabilities	84	4,035	112	274	132	4,637
Investment principal payable	376,215	299,853		10,043	1,468	687,579
Obligations under securities lending	607,789	704,487		24,101		1,336,377
Total liabilities	984,088	1,008,375	112	34,418	1,600	2,028,593
Net assets:						
Held in trust for:						
Employee's pension benefits	$ 7,084,325	3,740,821	875,305	173,915	110,745	11,985,111

See accompanying independent auditors' report.

STATE OF ARKANSAS

Combining Statement of Changes in Fiduciary Net Assets

Pension Trust Funds

Year Ended June 30, 2002

(Expressed in thousands)

	Teacher	APERS	Highway	State Police	Judicial	Total
Additions:						
Contributions:						
Members	$ 71,721	221	7,160		773	79,875
Employers	191,353	109,037	15,013	4,571	2,415	322,389
Court Fees				1,266	904	2,170
Reinstatement fees				1,065		1,065
Total contributions	263,074	109,258	22,173	6,902	4,092	405,499
Investment income:						
Net decrease in fair value of investments	(615,532)	(353,641)	(133,724)	(27,499)	(7,348)	(1,137,744)
Interest, dividends, and other	215,197	128,014	31,842	3,947	3,987	382,987
Real estate operating income	6,818	2,675				9,493
Securities lending income	8,091	17,708		745		26,544
Total investment income	(385,426)	(205,244)	(101,882)	(22,807)	(3,361)	(718,720)
Less investment expense	(40,198)	(27,467)	(3,505)	(1,750)	(512)	(73,432)
Net investment income	(425,624)	(232,711)	(105,387)	(24,557)	(3,873)	(792,152)
Miscellaneous	241	8,067	1,223	33	35	9,599
Total additions (losses)	(162,309)	(115,386)	(81,991)	(17,622)	254	(377,054)
Deductions:						
Benefits paid to participants or beneficiaries	354,950	153,007	40,607	12,651	4,966	566,181
Refunds of employee/employer contributions	2,745	805	659		15	4,224
Administrative expenses	7,354	4,097	40	115	44	11,650
Total deductions	365,049	157,909	41,306	12,766	5,025	582,055
Change in net assets held in trust for:						
Employees' pension benefits	(527,358)	(273,295)	(123,297)	(30,388)	(4,771)	(959,109)
Net assets, beginning (as restated)	7,611,683	4,014,116	998,602	204,303	115,516	12,944,220
Net assets, ending	$ 7,084,325	3,740,821	875,305	173,915	110,745	11,985,111

See accompanying independent auditors' report.

STATE OF ARKANSAS

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2002

(Expressed in thousands)

Assets		Insurance Department	Other agencies	Total
Cash and cash equivalents	$	15,596	45,200	60,796
Receivables:				
Accounts			21	21
Interest and dividends			11	11
Other			1,442	1,442
Investments at fair value:				
Short-term investments		339,254	74,309	413,563
Bonds, notes, mortgages, and preferred stock		72,910	5,193	78,103
Total assets	$	427,760	126,176	553,936
Liabilities				
Liabilities:				
Accounts payable and other liabilities	$		92	92
Due to other governments			76,833	76,833
Due to other funds			3,490	3,490
Due to third parties		427,760	45,761	473,521
Total liabilities	$	427,760	126,176	553,936

See accompanying independent auditors' report.

ARKANSAS

STATISTICAL SECTION

STATE OF ARKANSAS

Expenditures by Function (Unaudited)

General Fund

June 30, 2002

(In thousands)

	2002		2001	2000	1999
General government	$ 798,656		681,055	587,147	992,322
Education	2,231,517		2,172,021	2,098,860	1,959,309
Health and human services	3,292,958		2,984,687	2,698,687	2,614,967
Law, justice, and public safety	405,584		509,428	333,211	311,176
Recreation and resource development	196,051		196,734	203,358	170,619
Labor, commerce, and regulatory	96,841		120,189	161,703	139,345
Transportation	257,976	(1)	788,416	622,061	559,572
Debt service	93,392		69,841	77,244	57,917
Capital outlay	810,947	(1)	132,485	142,227	120,525
Total expenditures	$ 8,183,922		7,654,856	6,924,498	6,925,752

Note: The expenditures for fiscal years 1994 and 1993 are shown on a cash basis.

(1) Capital outlay expense increased while transportation expense decreased due to the capitalization of road and bridge construction in 2002.

Table 1

1998	1997	1996	1995	1994	1993
724,127	751,164	783,378	722,077	954,499	757,474
1,883,809	1,812,291	1,690,844	1,629,154	1,539,641	1,415,624
2,496,628	2,437,633	2,297,385	2,067,465	2,834,720	1,885,566
265,313	282,258	241,228	200,574	268,862	240,411
177,838	163,937	178,519	150,509	132,716	136,780
121,450	147,064	130,339	126,415	95,751	85,913
635,188	677,638	579,417	483,972	517,992	510,369
54,876	77,360	27,413	9,184	12,374	45,328
110,988	184,003	94,874	73,812	6,984	11,912
6,470,217	6,533,348	6,023,397	5,463,162	6,363,539	5,089,377

STATE OF ARKANSAS

Revenues by Source (Unaudited)

General Fund

June 30, 2002

(In thousands)

		2002		2001	2000	1999
Taxes:						
Personal and corporate income	$	1,671,615		1,704,226	1,670,110	1,873,980
Consumer sales		1,766,543		1,728,033	1,622,476	1,560,892
Gas and motor carrier		324,573		257,407	285,113	386,503
Other taxes		555,917	(1)	373,688	349,969	353,136
Intergovernmental		3,430,281		2,882,725	2,613,654	2,459,368
Licenses, permits, and fees		632,281		480,698	481,078	438,174
Investment earnings		63,167		107,074	102,158	108,000
Other		49,403	(2)	623,006	442,979	390,236
Total revenues	$	8,493,780		8,156,857	7,567,537	7,570,289

Note: The revenues for fiscal years 1994 through 1993 are shown on a cash basis.

(1) Other taxes increased in 2002 due to the elimination in 2001 of property tax relief funds collected and then taxing units. These tax revenues were not eliminated in 2002.

(2) Other revenue decreased due to tobacco settlement proceeds being included in 2001 in other but reclassified in 2002 as intergovernmental.

1998	1997	1996	1995	1994	1993
1,822,383	1,614,700	1,587,671	1,441,787	1,321,557	1,229,277
1,476,686	1,435,841	1,364,977	1,312,884	1,220,868	1,429,880
368,050	355,586	353,598	348,296	334,691	315,540
361,071	312,704	407,647	328,390	306,335	295,988
2,387,385	2,335,367	2,213,786	1,990,879	1,731,468	1,625,469
414,338	381,498	355,742	255,279	227,750	194,456
90,169	68,888	66,033	48,931	25,483	30,119
241,826	386,352	361,376	333,038	1,473,901	366,649
7,161,908	6,890,936	6,710,830	6,059,484	6,642,053	5,487,378

STATE OF ARKANSAS

Ratio of Outstanding General Obligation Bonded Debt to Gross General Revenues and Per Capita (Unaudited)

Last ten fiscal years

(In thousands – Except for ratio and per capita data)

	Population	Gross general revenues	General obligation bonded debt	Net general obligation bonded debt	
				Per capita	Ratio to gross general revenue
Year ended June 30:					
2002	2,703	$ 3,930,800	$ 712,939	263.76	0.181
2001	2,689	3,958,000	551,189	204.98	0.139
2000	2,673	3,844,800	546,172	204.32	0.142
1999	2,557	3,698,300	388,336	151.87	0.105
1998	2,540	3,544,400	400,402	157.64	0.113
1997	2,525	3,315,000	299,101	118.45	0.090
1996	2,507	3,142,200	244,683	97.60	0.078
1995	2,483	2,964,300	146,729	59.09	0.049
1994	2,449	2,752,100	149,261	60.95	0.054
1993	2,422	2,557,700	148,035	61.12	0.058

Sources:

Population: State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Gross general revenues: Arkansas Department of Finance and Administration, Office of Accounting

STATE OF ARKANSAS

Ratio of Annual Debt Service Expenditures for General Bonded Debt to
Total General Fund Revenues and Expenditures (Unaudited)

Last ten fiscal years

(In thousands)

	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
Year ended June 30:					
2002	$ 93,392	$ 8,493,780	0.0110	8,183,922	0.0114
2001	69,841	8,076,157	0.0086	7,576,656	0.0092
2000	77,244	7,567,537	0.0102	6,924,498	0.0112
1999	57,917	7,570,289	0.0077	6,925,752	0.0084
1998	54,876	7,161,908	0.0077	6,470,217	0.0085
1997	77,360	6,890,936	0.0112	6,533,348	0.0118
1996	27,413	6,710,830	0.0041	6,023,397	0.0046
1995	9,184	6,059,484	0.0015	5,463,162	0.0017
1994	12,374	6,642,053	0.0019	6,363,539	0.0019
1993	45,328	5,487,378	0.0083	5,089,377	0.0089

Source: Arkansas Department of Finance and Administration Office of Accounting

STATE OF ARKANSAS

Revenue Bond Coverage (Unaudited)

Arkansas Student Loan Authority

Last ten years

(In thousands)

Arkansas Student Loan Authority	Gross revenue	Direct operating expense	Net revenue available for debt service	Principal	Interest	Total debt service	Coverage
Year ended June 30:							
2002	$ 61,654	$ 3,597	$ 58,058	$ 13,005	$ 7,769	$ 20,774	2.79
2001	53,888	3,680	50,208	17,655	12,478	30,133	1.67
2000	44,630	2,902	41,728	4,730	10,353	15,083	2.77
1999	42,470	2,775	39,695	1,665	12,002	13,667	2.90
1998	37,510	2,572	34,938	2,100	12,200	14,300	2.44
1997	33,702	2,360	31,342	8,570	12,554	21,124	1.48
1996	31,471	2,076	29,395	2,575	10,968	13,543	2.17
1995	29,253	2,001	27,252	3,200	10,379	13,579	2.01
1994	22,198	1,673	20,525	3,415	7,470	10,885	1.89
1993	16,257	1,435	14,822	3,680	5,315	8,995	1.65

Source: State of Arkansas Student Loan Authority

STATE OF ARKANSAS

Demographic Statistics (Unaudited)

Last ten years

Calendar year (forecast)	Total population (in thousands)	Per capita personal income	Unemployment rate
2002	2,703	$ 23,142	5.1%
2001	2,689	23,757	4.5%
2000	2,673	23,114	4.4%
1999	2,557	22,188	4.5%
1998	2,540	21,149	5.5%
1997	2,525	20,334	5.3%
1996	2,507	19,425	5.4%
1995	2,483	18,524	4.9%
1994	2,449	17,757	5.3%
1993	2,422	17,005	6.1%

Source:

State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

STATE OF ARKANSAS

Economic Statistics (Unaudited)

Last ten years

(In millions)

Calendar year	Gross State Product (stated in 1996 dollars)	Personal income
2002	$ 66,641	$ 62,552
2001	65,950	60,290
2000	64,140	57,340
1999	61,545	54,996
1998	59,427	52,434
1997	57,691	49,901
1996	55,743	47,278
1995	53,805	44,767
1994	51,000	42,340
1993	49,000	40,298

Source:
State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

STATE OF ARKANSAS

Property Values, Taxable Sales, Bank Deposits, and Bank Loans (Unaudited)

(In millions – except for bank number data)

			Banks			
	Assessed property values	Taxable total sales	Number	Deposits	Loans	Assets
Calendar year ended:						
2002	$ 25,357	$ 36,529	169	$ 26,505	$ 20,593	$ 31,878
2001	23,979	36,275	178	23,536	18,104	28,165
2000	22,696	35,486	185	21,545	16,599	25,682
1999	21,648	33,307	195	22,467	16,433	26,725
1998	20,796	31,873	202	21,503	14,772	25,128
1997	19,895	30,824	226	24,704	17,159	28,735
1996	18,383	30,425	233	26,453	17,515	30,633
1995	17,021	28,794	242	24,057	16,298	27,987
1994	16,639	26,862	257	23,431	14,085	27,085
1993	15,756	24,813	257	22,109	12,642	25,164

Sources:

Assessed property value:	Assessment Coordination Department
Taxable sales:	State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research
Banks:	State Bank Department; FDIC Database

STATE OF ARKANSAS

Twenty-five Largest Private Sector Employers in Arkansas (Unaudited)

June 30, 2002

	Company	Number of employees
1.	Wal-Mart Stores Inc.	40,859
2.	Tyson Foods Inc.	24,251
3.	Baptist Health	7,765
4.	ConAgra Inc.	5,500
5.	Beverly Enterprises Inc.	5,483
6.	Alltel Corporation	4,800
7.	Simmons Foods, Inc.	4,300
8.	Whirlpool Corporation	4,000
9.	Kroger Co.	3,670
10.	Georgia-Pacific Corporation	3,500
11.	Dillard's Inc.	3,200
12.	Entergy Corporation	3,157
13.	Arkansas Children's Hospital, Inc.	3,103
14.	SBC Communications Inc.	3,100
15.	Mountaire Corporation	3,100
16.	J.B. Hunt Transport Services, Inc.	3,011
17.	International Paper Company	3,000
18.	St. Vincent Health System	3,000
19.	Union Pacific Railroad Co.	2,962
20.	Acxiom Corporation	2,800
21.	Sparks Regional Medical Center	2,768
22.	Emerson Electric Company	2,500
23.	O.K. Industries Inc.	2,492
24.	Cooper Tire and Rubber Co.	2,441
25.	United Parcel Service, Inc.	2,280

Source:

Arkansas Business Book of Lists

STATE OF ARKANSAS

Miscellaneous Public Education Statistics (Unaudited)

Last ten years

	Number of schools	Average daily attendance	Number of teachers	Pupil-teacher ratio
School year ended:				
2002	1,133	420,015	31,429	13.36
2001	1,159	418,906	31,883	13.14
2000	1,149	422,958	31,010	13.64
1999	1,108	421,933	30,745	13.72
1998	1,149	429,892	29,616	14.52
1997	1,104	426,983	29,415	14.52
1996	1,095	420,901	29,344	14.34
1995	1,095	418,222	28,875	14.48
1994	1,119	414,065	28,550	14.50
1993	1,082	411,306	28,180	14.60

Source:

Annual Status Report of the Public Schools of Arkansas, Arkansas Statistical Report, and Arkansas Department of Education

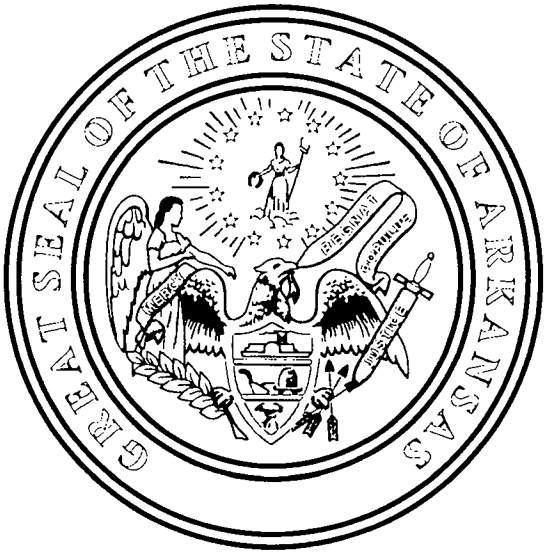
	Expenditure on education per pupil in daily attendance			% Revenue from State Government		
	United States	Arkansas	Arkansas Rank	United States	Arkansas	Arkansas Rank
School year ended:						
2002	$ 7,899 *	$5,876 *	47 *	50.10% *	62.30% *	11
2001	7,640	5,966	46	50.20%	62.20%	12
2000	7,146	5,625	46	50.70%	62.90%	12
1999	6,734	5,545	42	49.80%	61.00%	16
1998	6,638	5,848	34	49.10%	60.80%	14
1997	6,335	4,498	48	48.70%	65.90%	6
1996	6,103	4,353	48	47.90%	65.40%	7
1995	5,894	4,059	49	46.00%	63.60%	9
1994	5,730	3,949	49	45.80%	62.70%	11
1993	5,616	3,928	47	46.90%	62.30%	11

* Estimate

Source:

National Education Association Research, Estimates Data Bank

Rankings of the State's 2001 and estimates of school statistics 2002.


GREAT SEAL OF THE STATE OF ARKANSAS

STATE OF ARKANSAS

Miscellaneous Higher Education Statistics (Unaudited)

Last ten years

Public Institutions

	Fall net enrollment	Degrees awarded		
		Undergraduate	Graduate	Total
2001-02	103,740	15,133	2,999	18,132
2000-01	100,207	14,148	2,987	17,135
1999-00	99,225	13,752	3,053	16,805
1998-99	97,742	13,027	2,951	15,978
1997-98	95,435	12,743	2,869	15,612
1996-97	92,069	13,152	2,910	16,062
1995-96	90,276	12,543	2,729	15,272
1994-95	89,466	11,907	2,823	14,730
1993-94	89,230	11,684	2,754	14,438
1992-93	88,764	11,351	2,641	13,992

Private Institutions

	Fall net enrollment	Degrees awarded		
		Undergraduate	Graduate	Total
2001-02	11,890	2,122	182	2,304
2000-01	11,487	1,941	120	2,061
1999-00	11,015	2,013	111	2,124
1998-99	10,781	1,871	76	1,947
1997-98	10,698	1,950	80	2,030
1996-97	11,116	1,893	90	1,983
1995-96	10,969	1,786	80	1,866
1994-95	10,703	1,566	59	1,625
1993-94	10,602	1,634	73	1,707
1992-93	10,422	1,675	62	1,737

Sources:

Fall On-Campus Enrollment: Table 6, Fall Enrollment Book

Degrees Awarded: Total Degrees and Certificates by Sector; Degrees and Certificates Book

STATE OF ARKANSAS

Miscellaneous Statistics (Unaudited)

Date of Statehood	1836
Form of Government	Constitutional Representative Government
Land Area	34,036,700 Acres
Miles of State Highway	16,367
State Police Protection:	
Number of Stations	22
Number of State Police	528
Higher Education (State supported):	
Number of Campuses	33
Number of Students	103,740
Recreation:	
Number of State Parks	51
Area of State Parks and Forests	52,605 Acres
Number of State Parks Museums	4